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A diary for 2001

Jan 4th 2001
From The Economist print edition

January

The connoisseur's millennium has begun. Sweden inherits the European Union (EU) presidency from France for six months. Romania takes charge of the Organisation for Security and Co-operation in Europe. Ireland, Norway, Singapore, Colombia and Mauritius settle into the United Nations Security Council for two years.

Greece becomes the 12th country to join the euro.

Australia celebrates 100 years of independence, while Britain notes the centenary of Queen Victoria's death.

It is 200 years since the Act of Union between Britain and Ireland.

Peace accords in Aceh, a separatist-minded province in Indonesia, are due to expire.

Thailand and Portugal both hold elections, respectively parliamentary and presidential. In Senegal voters decide on a new constitution.

Marking the end of the Roman Catholic jubilee year, Pope John Paul II appoints a swathe of new cardinals.

Ten years after the Gulf war began, will there be protests over sanctions on Iraq?

The Chinese Year of the Snake begins.

Is the global economy going off-piste? The World Economic Forum gathers in Switzerland for its annual love-in on the slopes of Davos.

America inaugurates George Bush as its 43rd president. Bill Clinton's presidential immunity expires.

February

Jean-Bertrand Aristide, a former priest, should be inaugurated as president of Haiti. It will be his second term; his first was interrupted by a coup.

Israel's prime minister, Ehud Barak, battles for re-election against the hawkish Ariel Sharon.

Fifteen years after it was launched, Russia's *Mir* space station is set to fall to earth. Pack an umbrella.

Watch out for wobbles. A conference on natural disasters takes place in earthquake-hit Kobe, Japan.

March

The London Stock Exchange marks its bicentenary, although it may be pocketed by overseas interests.

The 40th annual Golden Shears competition of sheep-shearing takes place in Masterton, New Zealand.

Two African elections: a parliamentary one in Lesotho, and a presidential one in Benin. Regional polls in two German states, local voting in France, and a Swiss referendum on EU membership.

In Uganda President Yoweri Museveni must call an election between now and the end of May.

The Organisation of Petroleum Exporting Countries holds its annual meeting in Vienna, while in Vietnam, the Communist Party holds its five-yearly get-together.

More fun is likely at the tenth annual international UFO convention, in Laughlin, Nevada. And in Britain the Countryside Alliance holds a protest rally.

An Africa-EU meeting is due in Addis Ababa, capital of Ethiopia, preparing for a ministerial meeting by year-end.

April

Al-Hijra, the Muslim new year's day, begins the year 1422.

Another presidential election takes place in Peru to find a replacement for self-exiled Alberto Fujimori.

Faroe Islanders vote in a referendum on independence from Denmark.

President Fidel Castro of Cuba celebrates four decades since the Bay of Pigs fiasco. Basques mark Homeland day. North Korea celebrates Sun day (on a Thursday), the birthday of the country's late Great Leader, Kim Il Sung.

It is World Earth day, all over the planet, then International Television Turn-Off week.

In Quebec, Canada, 34 heads of state gather for the third summit of the Americas. Will George Bush arrive with trade negotiating authority from Congress?

A general election is expected in Italy. The two front-runners for the job of prime minister are Silvio Berlusconi, a mediamagnate and former prime minister, on the right, and Francesco Rutelli, affable mayor of Rome, on the left.

Where were you last night? Britain submits to a national census.

May

After the head count, the vote counts. Britain's general election is expected early this month, and will probably be won by the ruling Labour Party. Parliamentary voting also takes place in the Philippines and, probably, Poland.

The EU opens its door a chink, dropping a visa requirement for Bulgarians.

For the first time since 1922, Britain's FA cup football final is held away from Wembley.

A follow-up to last year's failed climate-change talks in The Hague is held in Bonn, Germany.

Australia's National Sorry day and National Reconciliation week both focus on the treatment of aboriginal children.

The third UN conference on less-developed countries is held in Brussels. In America the National Rifle Association meets.

June

Bulgaria and Albania have parliamentary polls, and Iran and Mongolia hold presidential elections.

The UN General Assembly meets for a special session on AIDS in Africa. The Federation of European Stock Exchanges holds its annual general assembly in Paris. The International Whaling Commission meets in London.

Will the deadline be met for full implementation of the Good Friday Agreement in Northern Ireland?

The UN's refugee agency declares its first worldwide World Refugee day with a ceremony at the Statue of Liberty in New York.

The best vantage points to enjoy the sun's total eclipse are in southern Africa and South America.

Sweden's half-year spell in the EUpresidency ends with a summit in Gothenburg. Belgium picks up the baton.

July

Uganda, Tanzania and Kenya should convene a new legislative assembly for East Africa, 24 years after their first one collapsed.

Japan's election for the upper house of parliament will be seen as an unpopularity test for the government.

Russia should have shut the last of its military bases in Georgia by now.

Leaders of the G8 countries meet in Genoa, northern Italy.

The International Olympic Committee (IOC) picks the host of the 2008 summer games. Juan Antonio Samaranch steps down after 21 years as IOC president.

It is 25 years since a spaceship landed on Mars.

A photo-Finnish? The tenth annual wife-carrying championships takes place in Sonkajarvi, Finland. Next month Finland holds the Air Guitar World Championship.

August

It is 40 years since the Berlin Wall was built.

Pull on your *Lederhosen* for a festival in Windischgarten, Austria.

The world athletics championships take place in Edmonton, Canada.

September

Norway holds a parliamentary election.

The Eurasian Economic Community, comprising Russia plus four former Soviet republics, meets for the first time.

Rosh Hashanah ushers in Jewish new year 5762, and Yom Kippur, the holiest day of the year, falls later in the month. In Berlin, a long-planned Jewish museum is opened officially.

The American Bankers Association holds its annual convention. The Federation of Euro-Asian Stock Exchanges meets in Bishkek, Kirgizstan.

In Geneva the UN's food and health organisations discuss pesticides.

The Chinese steer a course between tears and cheers: it is 25 years since the death of the "Great Helmsman", Mao Zedong.

Don't hold your breath. This month sees World Peace day and Europe's Car-Free day.

October

The IMF and the World Bank meet for their annual chats. Beware of street protesters in Washington, DC. The Asia-Pacific Economic Co-operation countries get together in Shanghai.

Parliamentary elections are due in Argentina, Bangladesh and with a presidential poll too, in Zambia. The Gambia has a presidential vote.

Hindus celebrate Diwali, the festival of lights.

India hopes to launch its own weather satellite, from Sriharikota in southern Karnataka.

It is the UN's International Day for the Eradication of Poverty. And the organisation's annual African Development Forum meets.

November

A parliamentary election is due in Jordan, and legislative and presidential ones in Nicaragua and Honduras. New York city votes for a mayor. Whozzoner? Bill Clinton has been touted.

Residents of Vieques, an island part of Puerto Rico, vote on evicting the American navy from a base there.

Muslims begin fasting for the month of Ramadan.

A European banking congress is held in Frankfurt. The World Heritage committee of the UN's education and culture agency, meets. And leaders of the 16 countries of the Central European Initiative gather too.

December

Unlucky for many. World AIDS day is marked for the 13th year.

Chile holds a congressional election. Eritrea may hold a legislative vote.

Although it is 15 years since a disastrous gas leak in Bhopal, in northern India, which killed some 5,000 people, several thousand compensation claims still await government attention.

Nobel prizes are awarded.

After asummit in Brussels, Spain prepares for the EU presidency. January 2002 also brings euro coins and notes for 12 European countries.

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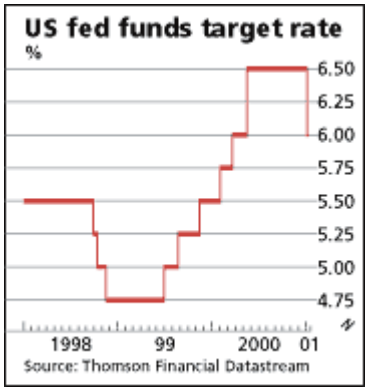
Business this fortnight

Jan 4th 2001
From The Economist print edition

Rates come down

America's Federal Reserve made a surprise cut in **interest rates**, trimming the fed funds rate half a point to 6%. The Fed also said it would cut rates again if that were necessary to ward off recession. Recent bad news included a sharp fall in the National Association of Purchasing Management's index of manufacturing activity in December: it hit its lowest level since April 1991. The Conference Board's index of consumer confidence also fell, for the third month running, reaching a two-year low.



See article: Greenspan's big surprise
On the first day of trading in the new year, America's high-tech **Nasdaq Composite index** fell 7.2% as investors worried about falling profits and the state of the economy. But it rebounded almost twice as far on news that the Fed had cut interest rates.
See article: After the Fed's rate-cut

America's travails gave a boost to the **euro**, which reached a five-month high against the dollar, of just below 95 cents. And it rose above ¥108—a level not seen since last February. The euro-zone also welcomed a new member: Greece became the 12th country to adopt the single currency.

Saudi Arabia responded to sliding **oil prices** by calling for OPEC to cut production at its meeting on January 17th by 1.5m barrels a day. It convinced oil markets that quotas would be cut and briefly caused the oil price to rally.

Credit where due

A sharp fall in the prices of **investment-grade and junk bonds** looks likely to continue in America, according to Standard & Poor's, a credit-rating agency. It added that defaults would probably increase as America's economy slowed. S&P also said that the number of credit downgrades had exceeded upgrades for the tenth quarter in succession.

As part of last year's messy divorce settlement with Arthur Andersen, Andersen Consulting adopted a new name, **accenture**. Despite hoping to emphasise an "accent on the future", the logo will adopt what is now a rather old-fashioned look: lower-case lettering throughout. Corporate freebies with the old name could become collectors' items.

Edson Mitchell, a top executive at Deutsche Bank and a leading figure in its investment-banking arm's push for elite "bulge bracket" status, died in a plane crash. Mr Mitchell had been tipped as the next head of Deutsche's investment-banking unit.

Chase Manhattan completed a takeover of **J.P. Morgan** to become J.P. Morgan Chase, but lost a senior executive. Joe MacHale—J.P. Morgan's chief executive for Europe, the Middle East and Africa—announced that he would quit the enlarged investment bank. Other departures are expected soon.

Trouble brewing

Britain's government told Belgium's **Interbrew** that it must sell the brewing interests that it acquired

from Britain's **Bass** for £2.3 billion ($3.5 billion) last year. Interbrew, the world's second-largest brewer, had not expected such tough regulatory intervention; its shares fell sharply.

Wal-Mart, the world's biggest retailer, said that the December shopping season had been disappointing and that sales would be below its projections. But it also announced plans to follow Carrefour, the world's number two retailer, into Japan. The French company opened a store in Japan late last year and plans another dozen. Wal-Mart is hoping to open its first store next year.

Glaxo Wellcome and SmithKline Beecham completed their merger to form the world's second-largest drug company. **GlaxoSmithKline**'s birth had been delayed by American regulatory concerns over market dominance in some product lines.

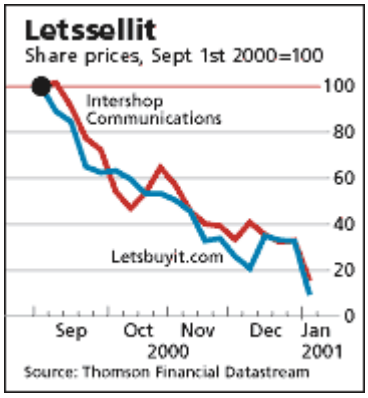
Tyson Foods, the world's biggest chicken company, is to buy **IBP**, America's largest beef-processing operation, for a meaty $3.2 billion in cash and shares. A rival all-share bid from **Smithfield Foods**, an American pork company, got the chop.

Aventis, a Franco-German drug company, announced that it would sell its 66% stake in **Messer Griesheim**, an industrial-gas firm, to Allianz Capital Partners and Goldman Sachs at a price thought to exceed *euro*1.5 billion ($1.4 billion). Aventis, like other drug firms, is moving away from the broad life-sciences business to concentrate on drug making.

Endesa, a Spanish power firm, expanded its pan-European activity with the acquisition of **Remu**, the fourth-largest gas and electricity distribution company in the Netherlands. The *euro*1.1 billion ($1 billion) purchase will give Endesa a 9% share of the Dutch market.

Online off-load

Letsbuyit.com, a European online group-buying concern, won temporary bankruptcy protection. It also announced that it would take no new orders as it hunts around for a cash injection to keep it solvent. When market trading resumed, its shares fell by over 50% in one day.
See article: Another Internet star falls



Intershop Communications, Europe's foremost supplier of e-commerce software, issued a profits warning. The German company blamed cutbacks in Internet spending by big companies as gains promised by e-commerce remained an ever distant prospect. Its shares plummeted.

EToys, a struggling American online toy shop, is to close all its European operations later this month after disappointing sales over Christmas.

Napster, a free service for downloading music from the Internet, struck a deal with **Edel Music**, a European music company, to make Edel's music available on the web. Napster, which is developing the new service with Bertelsmann, a German media giant, hopes that other record companies will follow suit.

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The world this fortnight

Jan 4th 2001
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Cabinet making

George Bush picked a cabinet that made no concessions to the narrowness of his victory. For the Treasury, he named Paul O'Neill, chairman of Alcoa; for the Pentagon, Donald Rumsfeld, who held the same job in the Ford administration; for the Interior Department, Gale Norton, a westerner and firm defender of property rights; and as labour secretary, Linda Chavez, an outspoken opponent of racial preferences in hiring. Most controversially, to be attorney-general, Mr Bush chose John Ashcroft, a staunch Christian conservative. The most widely applauded choice was Tommy Thompson, governor of Wisconsin, to take charge of health and human services. The only Democrat named so far was Norman Mineta, as transport secretary.

See article: George Bush's cabinet

Disregarding months of obstruction from senators, President Bill Clinton signed a treaty to establish a **world criminal court**. The Senate still needs to approve it, and is unlikely to do so, but the president's action at least encouraged Israel to sign up too.

See article: What? A world criminal court!

El Salvador adopted the dollar as its currency, the third country in Latin American to do so.

See article: Dollarisation in Latin America

EPA

Political heat in **Tabasco**: in a blow to his hopes of leading Mexico's formerly ruling Institutional Revolutionary Party, Roberto Madrazo, the state's outgoing governor, fled to Miami. In an unprecedented judgment, the Federal Electoral Tribunal had annulled the controversial election of a Madrazo ally as the state's new governor.

See article: A Tabasco pickle for Mexico's PRI

The second-biggest of **Colombia**'s guerrilla groups, the ELN, released 42 soldiers and police it had held hostage for up to two years. The aim was to speed formal peace talks with the government. Meanwhile, officials blamed the larger FARC guerrilla group, with whom peace talks are suspended, for the killing of a congressman and five others.

To prepare for an IMF-led package of $39 billion in aid, President Fernando de la Rua of **Argentina** issued decrees to cut spending on health and social security, which had been opposed in Congress.

Chile's Supreme Court ruled that **General Augusto Pinochet** should undergo medical tests before he could be questioned or arrested on criminal charges. The investigating judge ordered tests to start on January 7th, but the former dictator's lawyers want them postponed.

Serbia's new broom

Reformers led by Zoran Djindjic easily won **Serbia**'s general election on December 23rd, getting 64% of the vote to the 14% for Slobodan Milosevic's ex-communists. Mr Djindjic is likely to become prime minister soon.

See article: Zoran Djindjic, another big man for Serbia

The future of federal Yugoslavia, which links Serbia with tiny **Montenegro**, remained in doubt, especially

after a small party left Montenegro's ruling coalition, whose president, Milo Djukanovic, wants independence. An early general election looks likely.
See article: A chance for Balkan stability

Jean-Christophe Mitterrand, a son of **France**'s late president, François Mitterrand, was arrested amid reports that he had helped sell arms to Angola despite an international embargo.

Journalists at the **Czech Republic**'s state television service went on strike in protest against the appointment of a new boss said to be close to Vaclav Klaus, a right-winger who heads the main opposition party.
See article: A Czech row about the news

More than 50 asylum-seekers drowned when a ship sank off **Turkey**.

EPA

Restoring links

Taiwan lifted its 52-year ban on **direct trade** and communications with China, but only for business between the mainland and the Taiwanese islands of Kinmen and Matsu.

See article: Taiwan's new links with China

After years of delay, the Cambodian parliament agreed to set up a tribunal to try leaders of the former **Khmer Rouge** regime. Two are in custody. Pol Pot, who masterminded the regime's genocidal policy, died in 1998.

Four more members of the **Falun Gong** spiritual movement have died in Chinese prisons, according to a Hong Kong human-rights group, bringing to 92 the number of those known to have died from ill-treatment.

At least 178 people died after two passenger ferries collided in fog on the Meghna river in **Bangladesh**.

Glimmer of peace

As the *intifada* raged on, **Israeli-Palestinian** talks became a possibility. Bill Clinton submitted proposals for a framework agreement, which Ehud Barak announced he would accept if Yasser Arafat did so too. Mr Arafat, after seeing Mr Clinton, also accepted but with strong reservations, particularly over clauses dealing with the Palestinian refugees.
See article: Palestinian refugees' right of return

An Iraqi opposition group in exile reported that **Saddam Hussein** had suffered a severe stroke. "A stupid report that does not even merit a response," was the response of Iraq's Information Ministry.

The trial of four men—a Tanzanian, a Saudi, a Jordanian and a Lebanese-born American—accused of plotting to bomb the **American embassies** in Nairobi and Dar es Salaam began in New York. The explosions killed 224 people, most of them African. Osama bin Laden, a Saudi alleged to have masterminded the bombing, remains at large.

John Kufuor won Ghana's run-off election for president. Most Ghanaians welcomed the end of Jerry Rawlings's 19-year rule.

AP

The spreading of Sierra Leone's war to **Guinea** persuaded the United Nations to reverse its policy and help Sierra Leonean refugees to leave Guinea for

home.

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Greenspan's big surprise

Jan 4th 2001
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ALAN GREENSPAN, chairman of America's Federal Reserve, is not a central banker who makes a habit of surprising the financial markets. He prefers to give Wall Street what it wants and, as a rule, to deliver roughly when it expects. Yet on January 3rd, he sprang on the markets a cut in interest rates of half a point, rather than the customary tweak (be it up or down) of a quarter-point, and moreover did it without waiting for the next scheduled meeting of the Fed's policy-making committee. This was a more dramatic easing of policy than the Fed's first response to the Russian debt debacle and the threatened collapse of Long-Term Capital Management in 1998, a financial crisis that Bill Clinton described at the time as "the worst for 50 years".

The markets, given more, and sooner, than they had any right or reason to expect, were surprised all right. That is putting it mildly. Initially, at least, they greeted the news rapturously. The Dow Jones Industrial Average soared. The tech-heavy Nasdaq went crazy even by its own demanding standards, surging to a gain of 14%, the biggest since the market was established 30 years ago. So much for promoting financial stability. What on earth was Mr Greenspan up to?

It would be interesting to know. On the basis of published information, the move is puzzling. It looks hasty, even panicky. Yes, America's economy is clearly slowing. But it is supposed to be. As Mr Greenspan has been at pains to explain, if growth had failed to moderate from its earlier "torrid" pace, inflation would have continued to rise, and probably at an accelerating rate. The labour market is still tight; other inflationary pressures have yet to abate. That is why the Fed's avowed aim has been to slow the economy. Does the evidence therefore suggest that the slowdown so far is much too abrupt? Not really, not yet.

In December, admittedly, consumer confidence fell to its lowest for two years and retail sales were much weaker than expected. Unemployment insurance claims have been rising rapidly. Car sales are falling. And inventories are building up; by historical standards they are still quite low, but if the accumulation continues it will eventually force producers to curb production. Yet numbers of this sort are not inconsistent with a soft landing—the measured slowdown in growth in the overheated economy that the Fed has been trying to engineer.

Was Mr Greenspan swayed then by new figures published the day before the Fed cut rates? These showed that manufacturing activity, as surveyed by the National Association of Purchasing Management, fell much more sharply than expected in December, to its lowest since April 1991, the end of the previous recession. Manufacturing accounts for only one-fifth of America's GDP, but it remains an important economic gauge. Taking this together with the other new data, the risk of recession in America has clearly increased. But the Fed's sudden cut is still puzzling. Why not wait until the next planned meeting of the Federal Open Market Committee at the end of this month? By then, a good deal more information—including December's employment data (to be published on January 5th) and fourth-quarter GDP figures—will be available.

If nothing else, a cut announced at the time of the FOMC meeting would have seemed calmer and more orderly. In central banking, such things really count—as Mr Greenspan is normally well aware. A shock which blasts America's stockmarkets back upwards, which may encourage investors to believe that the Fed will protect them from risk even if it means keeping demand in the economy growing faster than supply, not merely delays the necessary economic adjustment, it runs the clear risk of worsening the existing financial stresses. Later, when adjustment can be delayed no longer, the jolt is all the more shattering. This is the answer to those who would say, "If a recession seems possible, err on the side of too much stimulus." Erring on the side of too much stimulus carries with it not just the danger of higher inflation, but also—more seriously—the risk of a worse recession down the road.

Stresses and strains

Perhaps the Fed is worried about the financial markets in their own right. On the eve of this cut, Nasdaq was down 55% from its peak last year. This has hurt a lot of investors. On the other hand, the broader market had fallen much less, and anyway it would be plain wrong to cut interest rates in order to push tech-stock valuations, many of which are still too high, back up. Keeping a bubble inflated is hardly a job for monetary policy. Elsewhere in the financial system, the creaking noises are getting louder. Credit markets are drying up, as investors flee risk, making it harder and more expensive for many firms to borrow. Spreads between junk bonds and risk-free Treasury bonds have increased to their widest since the 1991 recession, wider even than in 1998, circa LTCM. The market for initial public offerings has more or less closed, and banks have tightened their lending standards to firms as past loans have begun to turn bad. All this is worrying—but these are exactly the sorts of stresses that will be worsened, except in the short term, by a panicky easing of policy.

Mr Greenspan, an enormously able and experienced man, is undoubtedly aware of these risks. And yet he seems far more willing, as throughout his time as Fed chairman, to cut rates than to raise them. (Most of his critics, we acknowledge, attack him for exactly the opposite reason, but then we have always had far more respect for Mr Greenspan than for those critics.) Still, one cannot help wondering whether the Fed knows something the rest of us do not about financial fragility in America. Perhaps some specific, impending and possibly contagious calamity, another LTCM, needs to be headed off. If so, the markets will presumably soon regret their spasm of exuberance on January 3rd—and we will soon applaud the Fed's prompt, not precipitate, action in cutting rates. Barring such alarming possibilities, the Fed's haste is difficult to understand and even more difficult to defend.

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Asia's teetering trio

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Indonesia, Thailand and the Philippines face a testing 2001

A YOUNG democracy is a delicate sapling, needing time and care if it is to put down the roots that might see it grow into a mighty oak, or even a giant redwood. Europe, in the 1930s, learnt this the awful way. The democracies that had sprung up after the catastrophe of the first world war and the ensuing collapse of authoritarian governments were unable to weather the economic storm. Democracy proved all too easy to reverse.

In the months to come, South-East Asia risks learning the same lesson. In Indonesia, Thailand and the Philippines, all three relatively recent converts to the democratic way, there are once again rumours of coups, and a growing sense of despair at the shortcomings of elected governments in the face of an economic crisis now well into its fourth year.

Indonesia's case is the most dire. Not only is it the most recent of the converts, having held its first democratic election little more than a year ago, but it is also stricken by the most severe economic and political problems. Led by a blind and frail president, who won only a small minority of the vote despite his long and honourable record of opposition to the military regime of General Suharto, it faces half-a-dozen separatist rebellions and a collapse in foreign and domestic investment. It is widely believed that the army is destabilising President Abdurrahman Wahid by arming *agents provocateurs* in the rebel provinces, presumably with the aim of creating the conditions for one of its own to take power again.

Thailand, too, faces a testing few months. In the election on January 6th, the voters look likely to turf out the sitting prime minister and replace him with a businessman who, according to the country's Counter-corruption Commission, has made false asset declarations. If that charge is upheld on appeal, he would be ineligible to hold office. Thailand has had 17 coups in the past 70 years, and there is ominous talk among some in the army of another intervention.

As indeed there has been in the Philippines, also deep in political turmoil. This week, as the Senate resumed its trial of President Joseph Estrada, a series of bombs shook Manila, helping to send the peso to yet another low against the dollar. Some speculate that the bombs are the work of Mr Estrada's allies in the army, eager to give him an excuse to declare martial law. Equally likely is that the explosions were the work of a guerrilla group such as Abu Sayyaf, which wants independence in the south, though this is scant consolation.

Don't despair

Interesting times then: but they are also an opportunity for all three countries to demonstrate just how far they have come. In the bad old days, Thailand would surely have had a coup by now. But since 1992, the last time the army tried it, the popular mood has swung strongly against such intervention. Though not yet unthinkable, a coup is unlikely, which is progress. The impasse Thailand now faces, it bears remembering, arises because for the first time the country has an anti-corruption law with bite. And in the Philippines, the present woes are a result of something unprecedented in Asia: a constitutional impeachment process aimed at removing a president widely seen as corrupt and incompetent. Even in Indonesia, Mr Wahid has bravely pushed the army back from the central role it once enjoyed. If his country survives 2001 as a democracy, it may be time to start talking about roots.

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Bush's world

Jan 4th 2001
From The Economist print edition

Will George Bush change America's foreign policy as much as he said he would?

HISTORY suggests that incoming presidents pledged to do one thing soon find themselves explaining why they have just decided to do another. Of nothing is that more true than foreign policy. Confronted by the realities of office, even young men forget the carefree promises of the stump speech. Yet the campaign reveals something of the candidate, and in the light of both that and George Bush's cabinet choices it is plain that his world is not quite the same as Bill Clinton's.

EPA

Mr Bush is not about to withdraw America into isolation, but he has consistently marked himself out by his hostility to such multilateralism as the Kyoto treaty on global warming and the Comprehensive Test-Ban Treaty; by his belief in a strong defence, including a national missile defence (NMD); and by his scepticism about intervention abroad except when "based on a strict definition of vital national interest". His choices for the top jobs in his foreign-policy team are all consistent with this rather unilateralist approach to the world.

The big uncertainty is whether the team is imaginative enough to respond successfully to—or, better still, head off—the threats and crises that will confront it. Youth and brains will certainly be on hand. Condoleezza Rice, as national security adviser, can supply both. But some of her new ideas seem ill-considered (pulling America's troops out of the Balkans, for instance) and some of her old ones, especially about Russia, simply inappropriate: whereas the CIA is now sensibly worrying about the decline of Russian power, Ms Rice seems to think the mothy old bear should be kept firmly in his cage.

Donald Rumsfeld, the choice for secretary of defence, will lend experience. But does he have the right cast of mind for a post-cold-war world now in its second decade? He first came into government in the 1960s. Those were the formative years, too, for Colin Powell, who will be Mr Bush's secretary of state. The extreme caution that characterises General Powell's thinking and is the inspiration of his "doctrine"—which says America should intervene only when it has both overwhelming force and an exit strategy—was born of his experience in Vietnam. Perhaps Vice-President Dick Cheney, like Mr Rumsfeld a former defence secretary, will be more ready to see American troops put in harm's way. But, all in all, it seems safe to say that, though America is militarily pre-eminent as never before, defence will be a central concern.

Yet plenty of traps await Mr Bush if he precipitately tries to go it alone. If, for instance, he were indeed to withdraw America's 10,100 troops (out of NATO's 63,100) from Bosnia and Kosovo, he could find his first term scarred as cruelly as his father's was by Somalia. His NATO allies would be appalled—with possibly painful consequences for America. The pressure within the European Union to turn its proposed rapid-reaction force into an independent entity would certainly rise, leading perhaps to a serious split within the Atlantic alliance. Even if that did not happen, the Europeans might well be much less willing to support Mr Bush's NMD plans, which many regard as unwise, and start to resist other American policies, such as the further expansion of NATO.

As it is, the pursuit of NMD may cause needless damage, unless it is accompanied by skilful diplomacy. The risk is that, though it is intended to protect America from rogue countries such as North Korea, it will antagonise China, whose relatively few nuclear missiles would be rendered impotent were an anti-missile shield ever to work. The mere threat of deployment would therefore encourage China to build more missiles, setting off an arms race in Asia. Meanwhile, however, as the CIA recently argued, America is less and less threatened by long-range missiles and more and more by cruise or other short-range missiles, or even suitcase bombs.

At present, Mr Bush seems to believe that America should look after itself and leave others to deal with the scourges that do not affect it directly. Even genocide would not merit intervention, he says, if it took place in “nations outside our strategic interest”. Yet few events, even in distant places, have no impact on America, and many (not all) grow more dangerous if neglected. America cannot deal with them all on its own; its allies should certainly play their part. But the necessary action, wherever it comes from, demands ever-greater ingenuity and thought, especially as new threats—cyberwar, biological war, economic instability, cults and disease—now jostle with the more familiar ones of ethnic hatred and religious rivalry.

The new threats, the old instruments

The difficulty for those who must deal with such threats is that the world has changed, yet the instruments for dealing with them have stayed much the same. They range from diplomatic parley through economic sanctions to military support (of the kind America is giving to Colombia), to armed attack. Mr Bush is right to think that armed attack should be a last resort (see article). But abjuring it is not in itself an adequate policy, and sanctions alone are hardly a substitute: witness the longevity of Fidel Castro and Saddam Hussein.

If Mr Bush is really as hostile to armed intervention as he proclaims, he will have to commit himself to some vigorous diplomatic engagement. That will be needed, in any event, if he is to achieve the goals he has already set. But it will also be needed to pacify old adversaries, and to prevent small crises from becoming big ones. The alternative will be an ever nastier world—and a host of problems in store for his successor.

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Rights and refugees

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The search for a permanent solution in the Middle East is now bogged down by the two sides' inability to agree on the future of the Palestinian refugees

AP

WEASEL words are not necessarily to be despised. Without a cunning formula, the Palestinians and Israelis are unlikely to be fished out of the latest and deepest ditch that they seem to have stumbled into. The Palestinians say there can be no permanent settlement unless the refugees who fled during Israel's 1948 war of independence are allowed the right, or choice, to return. The Israelis say there can be no "right", and the choice of whether or not any Palestinians are allowed into Israel must be theirs alone. Deadlock, it would seem (see article). And so it would be, if the dispute were not more about the acknowledgment of rights and principles than about the actual movement of people.

Some 3.6m people, or rather over half the Palestinian population, are registered by the UN Relief and Works Agency (UNRWA) as refugees. They are the Palestinians, and their descendants, who were either expelled, or fled, from their homes in what is now the Jewish state. They landed up in the West Bank, the Gaza strip, Jordan, Syria and Lebanon, where most of them, after all these years, still live, many of them in squalid camps, dependent on UNRWA's good offices. Some have made good, but none have been compensated for lost possessions. They pin their faith to a series of UN General Assembly resolutions, the first of which, in 1948, resolved "that the refugees wishing to return to their homes and live at peace with their neighbours should be permitted to do so".

After half a century of denial, Israel is quietly coming round to accepting some responsibility for the flight of the refugees. But it is not prepared to acknowledge their right to return. Before last October, when Israeli Arabs demonstrated in support of their fellow-Palestinians in the West Bank, Israel seemed ready to allow a limited number to trickle back under family-reunification schemes. Now, even that idea is less in favour. Let the refugees stay where they are, says Israel, and be compensated by somebody or other, or be absorbed into the prospective Palestinian state.

In practice, this is probably what will eventually happen, to most of them. Although families still treasure a rusty front-door key, they know that many of their villages have vanished from the face of the earth, and that their town houses are occupied by Israelis—some 10,000 houses in West Jerusalem alone. Generous compensation, both to the refugees individually, and to their country of resettlement, is for the great majority the most realistic path to a less troubled life.

The worst-off refugees are the 200,000 or so still living in Lebanon, which for reasons of history and sectarian balance discriminates cruelly against its Palestinians; they are allowed only the most menial jobs and are barred from all social services. They probably cannot stay where they are, but where can they go? The new Palestinian state, Israel would say. But that state, which will have 1.3m refugees of its own to rehabilitate, will be naked of infrastructure and virtually jobless, barely released from 30 years of military occupation. The number of newcomers it might absorb, even with money pouring in, is put at no more than 500,000 over ten years.

Although Lebanon presents particular problems, there is no hungry army of refugees waiting to march on Israel. There are, however, several million people who claim the right to choose, and who do not accept that their Palestinian leaders have the authority to renounce that right. This scares Israel, and embarrasses the Palestinian leaders. Yasser Arafat tries to convey, with a wink and a nod, to Israeli or American interlocutors that all they have to do is acknowledge that right, and he will see that it remains unexercised, or implemented most discreetly. The Israelis, understandably, do not trust him.

A necessary contradiction

The solution, it would seem, is a form of words that acknowledges both the Palestinians' right to return to the land they were pushed out of, and Israel's right to determine on grounds of national security that many of those who choose to take up this right may not be allowed in. Both sides are likely to look askance at a formula which, it must be admitted, contains a contradiction at its heart. But the alternative could be to see a last chance of peace go down the plug-hole.

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It's their business

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Britain's government is wrong to crack down on the sex trade. It should legalise it instead

PROSTITUTION is not a nice business. It upsets people who live where it happens. It isn't much fun for the prostitutes. It embarrasses police forces, because their efforts to suppress it are usually doomed to failure—which is one of the reasons why Britain's national government should support local politicians pushing for laws that would allow them to tolerate it instead.

Around the world, laws dealing with prostitution vary from extreme tolerance—such as in the Netherlands, where the business is legalised—to extreme repression, as in some Islamic countries, where it is punishable by death. The British way is characteristically moderate (or, perhaps, confused). Paying for sex, or providing it for money, is not illegal, though most of the activities associated with it (such as pimping and soliciting) are. But some city governments which have to deal with the problem day-to-day in practice tolerate the business, and others are moving in that direction (see article).

One reason why the government should support these moves is moral. In a liberal society, buying sex for money should be regarded as a legitimate commercial transaction, where it takes place between two consenting adults. It might be a transaction with peculiar psychological implications for both parties, but that sort of anxiety is beyond the law's remit.

There is a practical reason as well. The costs to society, and dangers to the participants, would be reduced if prostitution were legalised. Current British law on prostitution defeats its own objectives. Where prostitutes are arrested and fined, they go back to the streets to earn the money to pay up. If they are imprisoned, they become even less employable. Crackdowns make much-needed medical checks difficult. Serious crimes, such as child prostitution, are harder to monitor in the general climate of criminality. Coercive pimping and drug dependency flourish.

Libertarians might contend that prostitutes should be free to ply their trade wherever they please. But because prostitution affects people who are neither buyers nor sellers (such as the residents of areas where the trade goes on) and because it involves health hazards it does, like other risky, dirty or noisy industries, require some regulation.

Move over, puritans

Given that Britain's controversy-shy government is not going to legalise the business at a stroke, there are two possible ways forward. One approach, adopted by the Australian state of Victoria, would ban street prostitution but allow it to take place indoors, in "massage parlours", or other euphemistically-named premises. The other model was practised in the Netherlands, until it legalised prostitution last year. In a number of Dutch cities, prostitutes were shepherded into "zones of tolerance". There were plenty of arguments about where the zones should be, but they worked.

Britain's laws in this area are arcane and complicated, but it would be possible to make soliciting illegal only where it causes harassment and offence (as would be the case in residential neighbourhoods). Unfortunately, the somewhat puritanical Labour government, which is also painfully sensitive to headlines in the conservative press, is moving in the opposite direction. It recently announced plans to make kerb-crawling an arrestable offence. It should reconsider. A liberal framework would make moral and practical sense—and free police to get on with chasing proper criminals.

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Letters

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But we endorsed Bush

SIR—The "accidental president" cover and leader (December 16th) clearly demonstrates your liberal bias and is a sad attempt to attack the presidency of the United States. George Bush won the state of Florida in three counts. What else do you liberals want? You point out that Katherine Harris is the Bush campaign's chairperson for the state of Florida, but fail to point out that the Florida attorney-general was a Gore campaign chairperson. Do you truly believe that Al Gore won?

Also, I would like to point out that Gore voters are the ones who claim that they lack the intelligence to vote properly. What does that say about the future of the Democratic Party? I resent the fact that your newspaper has taken an extreme leftist position on this issue.

SANDEEP AUJLA
Pinole, California

SIR—Please, let us drop the left-wing slant towards the Democratic Party. Newspapers need not be totally impartial, but I believe it behoves *The Economist* at least to get its facts straight. You say that "Bill Clinton won the presidency under far more auspicious circumstances." May I point out that he won only 43% of the popular vote in 1992, getting 44.9m votes. Mr Bush obtained 49.8m votes in this election, giving him more than 48% of the popular vote.

PAUL WISGERHOF
Prague

SIR—"The accidental president"? Hardly. Mr Bush will become president because of the consistent and well-funded support of conservative Republicans, especially those on the Supreme Court. He had a great public-relations team and benefited handsomely when all those people could not manage to punch a voting card correctly. The Republican Party worked hard to succeed against heavy opposition.

You make a good point that Mr Bush has started off with low expectations. Those who did not vote for him expect tax cuts for the rich, dismemberment of the Environmental Protection Agency and a ban on abortions. But he might produce some surprises. Perhaps, because he knows he is not very talented himself, Mr Bush appears willing to bring in good advisers, and listen to them. If the advisers can keep a consensus, the Bush administration may not turn out so bad.

STEVE GELLER
El Cerrito, California

SIR—*The Economist* deservedly serves as a model of style and usage but a call for the world to dispense with George Bush's "W" is ill considered (in "The world in their hands", December 23rd). Surely, there is a need to distinguish between George Bush and George Bush. If your objective is to save ink, you will not: to avoid ambiguity, every mention of this or that George will probably be followed by an inky clause like "the elder", "the younger", "the former president" or "the current president". I did my bit to help the world's publishers conserve ink, but the better and more succinctly named candidate fell short.

MARK OSTROW
Seattle

SIR—Your “accidental president”, under a spotlight on the cover needs to make an urgent trip to Savile Row in spite of the American “dress-down” craze. Did you look at his suit?

JOHN HUBBER
Milan

Imperial Japan

SIR—I am astonished to read in your article on reforming Japan’s schools (“Less rote, more variety”, December 16th) that the 19th-century Imperial Rescript on Education was a notorious document, which paved the way, in the 1930s, for the mass indoctrination of Japanese children in emperor worship. The rescript was an ethical document, based on Confucian values. It called on young people to be nice and benevolent to everyone, behave modestly, perfect their moral strength, cultivate arts and sciences, advance the public good, respect the constitution and the laws, and in an emergency be ready to die for the country.

There was nothing notorious in this document, and every democracy today could endorse its basic tenets. In fact, the Christian leader at that time, Ebina Danzo, recommended that it should be included in all Christian sermons. The fact that in the late 1930s and early 1940s the militarists used this rescript to indoctrinate Japanese children to ultra-nationalism does not prove that the document itself was immoral.

BEN-AMI SHILLONY
Jerusalem

Superstatement

SIR—Patrick Massey (Letters, December 23rd) makes some fairly predictable points about the Conservative Party which it would be tiresome to refute but one point deserves a response. He mentions “constant barrages against mythical targets like the European superstate”. The threat of an EU superstate is hardly a matter of myth. Sadly, it is all too close to reality. The Tories have their problems—not least a rather unpleasant authoritarianism in its current leadership—but there is nothing “contemptible” in the approach to the EU. Sadly, many supporters of the current trend of European affairs treat opponents of the EU as beyond the pale.

TOM BURROUGHES
London

A dog’s life

SIR—As you imply, eating dogs is just as disgusting as eating pigs, who are equally intelligent and sensitive (“Man bites dog in Thailand”, December 16th). However, in Vietnam there is another twist: before they are eaten, the dogs might be beaten to death over several hours, or have their fur burnt off with a blowtorch while they are still alive. Insecure Vietnamese men believe that the adrenaline in the animal’s body increases their sexual prowess.

PAUL KAIL
Prague

Mind your language

SIR—I have doubts about the sincerity of the responses you received from German politicians regarding their foreign-language skills (“Parlez-vous Anglais?”, December 16th). In this country, politicians frequently suffer from a serious lack of modesty and often find it difficult to concede their weaknesses. Most will have answered with an emphatic “yes”, even if they only had a couple of years in school 40 years ago. The distinguished members of the German cabinet would be hard pressed if they actually had to get by in the languages they proudly claim. What is more reassuring: politicians who honestly acknowledge their difficulties with foreign languages (unfortunately few), or those who firmly believe that they are infallible?

RENE HOFFMANN
Essen, Germany

SIR—While I am sure many people in Britain are disappointed by their leaders' poor foreign-language skills, it could be worse. Consider the situation in America: George Bush cain't even speak English all that good.

ALAN MARTIN
Methuen, Massachusetts

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Why and when to go in

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The world George Bush faces is one in which wars of intervention may be increasingly necessary. This calls for a new geopolitical rule-book

THEY are wars that are almost certainly going to happen; but a lot of people are still struggling to understand why and when it may be necessary to fight them. One big test of George Bush's foreign policy is whether he can see the growing case in today's world for what have come to be called "wars of intervention".

Until very recently, the question of whether it can be legitimate for the outside world to intervene with military force in the internal affairs of a sovereign country would have struck most respectable people as a non-sequitur. Sovereign countries, by definition, were not to be intervened in. A lawful war, the lawyers explained, was a war in which a country sought to defend itself, or to defend a friend and ally, against an attacking enemy. To go to war in order to change the way another country was conducting its affairs was obviously illegal.

Then, in 1999, it began to look as if minds were changing. In that year a war of intervention was messily but successfully fought over Kosovo, as a result of which the Balkans are a rather better place than they used to be. A near-war of the same sort triumphantly achieved its purpose in East Timor, freeing a captured people from the rule of the Indonesian army. Unfortunately, a third intervention, in Sierra Leone, got stuck in the West African jungle; the doubters resumed their doubting; and the past year has seen a flinching away from what could be a just and necessary part of the international politics of the 21st century.

It's a long time since 1555

Is it possible to say when wars of intervention are justified, in terms that almost everybody can agree with? Yes, it probably is. Start with the case for believing that what goes on inside a "sovereign" country is no longer a matter that other countries should keep their noses, and hands, out of.

It was easy enough to tell outsiders to stay outside when they knew very little of what was going on in most of the rest of the world. The conventional idea of sovereign inviolability goes back to the Peace of Augsburg in 1555, which said that *cuius regio, eius religio*—the ruler decides his country's religion—and to the Treaty of Westphalia in 1648, when the powers of continental Europe wound up the Thirty Years War with a pledge to let each participating country be ruled the way its ruler wanted.

Back in those days, though, and for centuries afterwards, it was hard to know what a ruler was doing to the people he ruled. Ambassadors picked up what news they could, and sent the result off by horse and carriage; travellers added their titbits; but the organised collection of public information was a 19th-century arrival, and was anyway long confined to the prose of written journalism, not the vivid screen. As late as 1938, Britain's Neville Chamberlain could get away with calling Czechoslovakia a far-off country of whose people "we know nothing".

That is a vanished past. Now, except for a few sealed-off corners of Africa and Asia, what a ruler does to his people is swiftly revealed by camera, satellite and Internet to a large, interested and reasonably well-informed audience; and, if what he does is outrageous enough, the audience is likely to want something done about it. The appetite for action may waver, if it looks like becoming uncomfortably bloody. Nevertheless, the events of 1999 suggest that quite often dictatorial rulers will find it difficult to go on doing whatever they want within their borders, because the information revolution has stripped them of

their former privacy. A transparent world is a world in which it is increasingly hard to claim untouchability.

Moreover, the idea of “sovereign inviolability” has never been quite as sacrosanct as the conventional wisdom believed. Inside Europe, the big powers for a long time obeyed the Augsburg-Westphalia rules in their relations with each other. But smaller countries were not treated with the same respect. Poland disappeared from the map at the end of the 18th century to the geographical advantage of Prussia, Russia and Austria; in 1797 revolutionary France abolished the republic of Venice and gave most of it to the Austrians in return for getting Belgium from them; the next year the French marched into Switzerland to “liberate” the Swiss.

Outside their own continent, the imperial European powers of the 18th and 19th centuries were even more high-handed. France took over large chunks of Africa in the name of its *mission civilisatrice;* Britain removed assorted Indian rulers from power in order to make sure that, as Rudyard Kipling put it, “a court-house stands...where the raw blood flowed.” The Europeans explained that the Afro-Asian rulers they overthrew were not really sovereign powers, as sophisticated Europeans understood the phrase; but that was just convenient legal quibbling.

The proposition that governments should be left to conduct themselves as they wish within their own borders is not, in short, quite the universal verity it was once thought to be. The secretary-general of the United Nations, Kofi Annan, has said that a sovereign ruler has to obey some general moral rules. Even the international lawyers have, at least by implication, begun to feel uneasy. If it is now legal to arrest ex-dictators travelling abroad for what they did while in power, as happened to Augusto Pinochet, it seems a bit feeble to say that it was all right to leave them to do it in the first place—that they become culpable, as it were, only on retirement.

Indeed, the whole theory of sovereign inviolability would probably have come into question much earlier had it not been for the cold war. During the 40-year struggle between communism and the democracies, each side was reluctant to let the other stick a finger into its friends’ affairs, even when it was uneasily realised that those friends were behaving less than perfectly. But the cold war is over, and the ice it created is melting; and so, along with the ice, is the willingness to avert one’s eyes from what brutal governments are doing to their people.

What all can accept

Yes, say the doubters, that is all very well; but you must have clear rules about when it is permissible to intervene and when it is not. Otherwise chaos will set in.

If everybody can pick out what he dislikes about somebody else’s way of running a country, he will march in to impose his own ideas, pausing only to be sure he has the necessary military strength. The Chinese will say they are entitled to take over Vladivostok, on the ground that the governor of this bit of Russia’s far east is negligent and corrupt (and will not let in enough Chinese immigrants to run the place efficiently). The Russians can put the boot into Central Asia because it is their Manifest Destiny to sort out the anarchic region to their south. And the democracies will face an impossibly long list of requests for intervention from people who, for many different reasons, would like their governments improved. This way lies geopolitical disintegration.

The doubters are perfectly right about this. If wars of intervention are to be a serious part of tomorrow’s agenda, they will have to be based on a simple, straightforward and more or less universally accepted set of rules.

The rules must be countable on the fingers of one hand, because any larger number will lead to complaints that one rule contradicts or qualifies another rule. It must be possible to write them down in language that can be understood both by the people of the countries that will be doing the intervening and by the governments that are the targets of it. Above all, they must be rules that nobody can reject without in effect admitting that he is defying principles the rest of the world believes in. There may never be rules that everybody can honestly swear to; let there at least be rules that expose the dishonest

swearer for what he is.

For these purposes, the long lists of human rights compiled by the United Nations, the European Union and other worthy bodies are not that much help. The lists contain so many rights, some plainly more important than others; there can be genuine disagreements about the interpretation of many of them; and it is often hard for the outsider to measure whether a given right is being violated on a scale large enough to warrant a decision to go in and halt the violation.

Is a government that denies its workers the right to strike as bad as a government that denies its political opponents the right to live? Of course not. Is a government which permits capital punishment offending against the right to life as much as one that shoots demonstrators on the streets? Most people would say no. And how many demonstrators have to be shot, or members of ethnically inconvenient minorities murdered and mass-buried, before it is necessary to go in and stop it?

There are so many uncertainties. “Human rights” are a useful rule of thumb for judging a country’s moral performance, but a wobbly basis for wars of intervention. Sometimes the sheer scale of the horror may demand action. The genocide in Rwanda in 1994, which killed about 800,000 people, was so vast and so primally brutal that an intervention in the name of humanity would have been right if it had been militarily possible. But not every bloody outbreak, everywhere, can bring in the peacemakers.

Two good reasons

There are, however, at least two grounds for intervention which pretty clearly pass the tests described above. Both of them have been made easier to understand by what has happened in the Balkans in the past couple of years; and both of them are likely to bring intervention-seeking applicants from other parts of the world knocking at the democracies’ door in the years ahead.

The first ground for intervention is when a clearly definable people in a clearly definable geographical area is being violently denied the right to govern itself by another, stronger lot who say that the smaller group is part of their own “sovereign” territory. The fussy precision of that sentence is necessary. There are plenty of countries where a rich variety of different people live intermingled with each other (India is the most spectacular example) and where it would be nonsense to say that each of these component elements, even if they quite often grumble about one another, ought to have its own separate government.

Kosovo was not like that. Here was a clearly defined area (the dotted line around it drawn by the “sovereign” Serbs themselves) whose people were 90%-plus non-Serbs, but were denied by the Serbs the right to run their own affairs. There are plenty of equally definable people in a similarly definable plight in other parts of the world. They will not all be rescued in the next few years, or maybe ever (who is volunteering to organise an intervention army for Tibet?). But their claim to be helped is as good as Kosovo’s; and sooner or later, provided they can sustain themselves as independent states (and provided they do not look as if they will promptly invade their former oppressors), some of them will get the help they seek.

Millennial dreaming? Possibly. But remember the opinion of John Stuart Mill, a political philosopher much respected by the early *Economist*. In general, Mill thought intervention a foolish business. But in 1848-49, when the Hungarians rebelled against the “foreign yoke” of Austrian rule, and then Austria with Russian help hauled them back under the yoke, Mill came to the conclusion that “it would have been an honourable and virtuous act on the part of England to have declared that this should not be.”

The second fairly solid argument for intervention, also illustrated by recent events in the Balkans, reaches even deeper into the supposed sanctuary of the sovereign state. Here the target is not the authoritarian ruler’s control over a subject territory attached to his homeland, but his control over the homeland itself. If it becomes reasonably obvious that a government has decided to hold on to power against the wishes of most of the people it governs, and is not going to change its mind, it should not think that its denial of the democratic principle will be allowed to go unchallenged.

This is what has just happened to Serbia’s Slobodan Milosevic. Having been ejected by NATO from Kosovo, he called an election, lost it, denied he had lost it, and was told by Europe and America that he could not deny his defeat. His opponents, encouraged, came out on to the streets, in unstoppable strength, and he was suddenly an ex-president, without a shot fired.

An intervention to liberate a Kosovo, or to insist that a dictator obey his people's clearly expressed wishes, is an intervention which passes the basic test. It rests upon the simple and now more or less universally accepted principle that a government should stay in office only with the continuing consent of the people it governs. There are, to be sure, quite a lot of rulers around the world who dislike that principle; but they cannot say so publicly without drawing general disapproval down on their heads. An intervention to uphold the democratic principle is therefore in a clearly different category from a Chinese push into Vladivostok, or another crack at Kuwait by Saddam Hussein, or any other intervention designed chiefly to serve the interests of the interveners. It is a justifiable intervention, for a reason almost everybody can agree with.

The will of the people

Of course, a great deal depends on being able to know the "clearly expressed wishes" of the people involved. Fortunately, this is quite a bit easier than it used to be, thanks to a combination of modern news-gathering technology and the fact that, since the end of the cold war, the world has become a lot more open to the news-gatherers.

These days, not many governments will either refuse to hold an election at all or, if they do hold one, claim the 98% victory for themselves that was routine in the communist world and its grateful imitators. The rulers of most countries are now willing to have elections in which people who disagree with them can take part, and can to some extent tell the voters why they disagree. In many cases the rulers have also resigned themselves to letting journalists from the old democracies—even better, observers from international bodies and NGOs—come and watch the election. Between them, these inspectors can generally tell whether the election was free and fair, and who they reckon won it. This was how Mr Milosevic came his historic cropper.

There are still some countries where this is not the case; but here the United Nations can lend its special hand. The UN is the one organisation which the governments that belong to it, unless they want to be seen blushing, are pretty well bound to accept as impartial. When the journalists and other observers have raised a suspicion that a coming election may not be fair, the UN can insist on sending in its own inspectors. If the government in question refuses—or if the UN goes in and reports the election a fraud—the guilty party will face the possibility of a war of intervention by those prepared to fight for the birth of democracy.

There remains the awkward question of consistency. After Kosovo and East Timor, a lot of unhappy places will be proposed as suitable cases for intervention under one or the other of these two tests. Obviously, not all of these proposed interventions can be taken on—and, equally obviously, none of them should be attempted until other avenues of persuasion have been tried. But this is not a reason for saying, as some people do, that wars of intervention should never be launched. Even one rescued country is better than none, not least because the example set improves the chances of the next rescue.

Still, though some applications for help will doubtless be accepted, others will have to be turned down; and it needs to be convincingly explained why. The more or less honourable explanation ought to be that the distinction is being drawn not because Candidate A suits the interests of the interveners better than Candidate B—which would blow a hole in the idea of a principle-based policy—but because Candidate A's case is manageable but, alas, Candidate B's is not.

All wars kill people, and how willing the evangelists of democracy will be to fight a war of intervention depends in large part on how many people are likely to get killed. It is hard to imagine today even the warmest advocates of intervention cheerfully accepting the casualties required for the liberation of Tibet or Chechnya, or the removal of Myanmar's election-defying junta (though tomorrow's advances in high-tech warfare may change those calculations). We are answering this call for help, the democracies should say, because we can do so at a price we are prepared to pay, not because the applicant is an old friend; and we are turning the other one down only because the price is too high.

Of course, principle and interest are never entirely separable. A country will find it easier to contemplate the death of its young soldiers if they are going to help a familiar, nearby people than if they are being sent to fight in some murkily remote corner of the world (compare a western intervention to rescue refugees from a disintegrating Algeria with, say, an expedition to free Irian Jaya from Jakarta's rule). And a country which takes part in a successful democracy-building intervention knows it will thereby win widespread applause, as well as bringing an at least temporarily grateful new government into office in the rescued country. In politics, it is seldom easy to disentangle what is right from what is handy.

Nevertheless, the prime purpose of intervention should be to help an oppressed people in a troubled land, not just to further one's own interests.

Who dares, wins

There are complicated calculations to be made, and obvious dangers to be faced, if wars of intervention are part of the agenda of the next 20 or 30 years. This is because the democracies stand at a rare moment in history. Between them, Europe and America command huge material wealth; they possess (or America does) at least another decade's worth of hitherto unimaginable military superiority; above all, they speak for the one more or less universally acceptable political idea—that every country should have the sort of government most of its people choose to have, with a regular opportunity to change it. There has not been a time like this since the high days of Rome, and even Rome could not claim that final strength.

It would be odd if the Americans decided to stroll through this period self-centredly pursuing their own interests, rather than helping to spread the idea they did more than anybody else to create. It would be a sad commentary on Europe's claim to be renewing itself if the Europeans retired into their own 21st-century version of America's 19th-century isolationism, rather than continuing the 20th-century Euro-American partnership that twice overcame the enemies of democracy. History records an awful lot of missed opportunities, but this would be the most spectacular of them all.

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By George

Jan 4th 2001 | WASHINGTON, DC
From The Economist print edition

The mandate-less manner of George Bush's victory led many people to expect that his cabinet would be strongly bipartisan, and weakly conservative. His appointments have proved their prediction wrong

ON THE face of it, George Bush's administration seems designed largely to compensate for his personal lack of experience in government. Think of his proposed cabinet as three concentric circles: an inner core of heavyweight national security and economic policymakers; a conservative second ring of domestic policymakers; and a motley crew at the outskirts.

AP

Making his mark

For the inner circle, Mr Bush reached back to the Ford administration, and to his father's. Three members of this group served under President Ford a quarter-century ago: Dick Cheney, then chief of staff; Paul O'Neill, then deputy head of the Office of Management and Budget (OMB), now nominated as Treasury secretary; and Donald Rumsfeld, the once and future defence secretary.

This group gives the Bush cabinet a strong corporate and managerial flavour, as if it were a meeting of America's board of directors. All three served at the pinnacles of the old economy. Mr Cheney ran Halliburton, an oil-services company. Mr O'Neill ran Alcoa, a virtual aluminium monopoly. Mr Rumsfeld came from G.D. Searle, a pharmaceuticals firm (a background shared with the new head of the OMB, Mitch Daniels, who comes from Eli Lilly, another drugs firm).

These men exemplify Main Street Republicanism. Ronald Reagan surrounded himself with swashbuckling Californian businessmen with ill-concealed contempt for the east-coast establishment. Now, the fiscal conservatives of the east coast have come out on top. With the exception of Larry Lindsay, a former Fed governor and now chief economic adviser to Mr Bush, there is hardly a supply-sider in the bunch.

If you then add in the other members of the national-security team from the White House of the elder Bush—Colin Powell and Condoleezza Rice—you complete a picture of the inner core as a collective safe pair of hands. Their main drawback may be that they will tend to see foreign crises in predominantly military terms (Messrs Cheney, Rumsfeld and Powell all have backgrounds in the Pentagon). But they are undoctrinaire, unflamboyant, and experienced at managing big organisations.

These are not negligible qualities. Bill Clinton's policy-wonkish preferences plunged his first year in government into organisational chaos. The Bush team's depth of managerial expertise has been rightly praised. Leon Panetta, whom Mr Clinton brought in as chief of staff to sort out the early muddle, called the first choices "pragmatic moderates" and said "it bodes well for the effort to try to govern at the centre."

Bush's administration

Position		Age	Conservativeness	Texanness	Poppyness*
Vice-president	Dick Cheney	59		★★	
Secretary of state	Colin Powell	63			
Treasury	Paul O'Neill	65		★	
Defence	Donald Rumsfeld	68			
Attorney-general	John Ashcroft	58			
Interior	Gale Norton	46		★	
Agriculture	Ann Veneman	51			
Commerce	Donald Evans	54		★★★	
Labour	Linda Chavez	53		★	
Health & human services	Tommy Thompson	59			
Housing & urban development	Mel Martinez	54			
Transportation	Norman Mineta	69		★	
Energy	Spencer Abraham	48			
Education	Rod Paige	67		★★★	
Veterans' affairs	Anthony Principi	56			
Environmental protection	Christine Todd Whitman	54			
Chief of staff	Andrew Card	53			
National security adviser	Condoleezza Rice	46			

Source: *The Economist* *Proximity to Bush family

That may be true of the inner circle, but it can hardly be said about the next ring, that of the main domestic policymakers. This contains more conservative figures. The proposed secretary of health and human services, Tommy Thompson, is the governor who shook up welfare in Wisconsin. Linda Chavez is one of the few Reaganites in the new administration (she was head of the Commission on Civil Rights then), and her nomination as labour secretary has already drawn the ire of trade unions. Spencer Abraham, a former senator, has been nominated to run a department (energy) that he once proposed abolishing. Above all, the appointments of attorney-general (John Ashcroft) and interior secretary (Gale Norton) have been seen as victories for the right.

These figures are heroes to conservatives for their espousal of policies that are meat and drink to the right, especially abortion. But in fact, though they can all be lumped together under the broad rubric of conservative, there is a critical difference between them. Norm Ornstein, a scholar at the American Enterprise Institute (where Messrs Cheney and O'Neill have both worked), puts it this way. As governor of Wisconsin, which voted for Al Gore and Mr Clinton twice, Mr Thompson has had to work with Democrats to achieve anything. It is hard to imagine him coming into office and reversing everything his predecessor did—especially since that predecessor, Donna Shalala, also comes from Wisconsin and worked with Mr Thompson when she was chancellor of the University of Wisconsin at Madison.

Leading with the right

But with Mr Ashcroft, Mrs Norton and Mrs Chavez, it is easy to think they would indeed overturn the bits of the Clinton legacy they inherit. The current interior secretary, Bruce Babbitt, has set aside more land under federal programmes to protect wilderness areas than anyone since Teddy Roosevelt. Mrs Norton is a fierce opponent of the extension of these programmes and a supporter of private land-use rights in the west. Mr Clinton has supported affirmative-action policies in labour law and tried to narrow the gap between men's and women's pay for the same work. Mrs Chavez is an outspoken opponent of both ideas.

As for Mr Ashcroft, he is one of the most successful of all politicians from the religious right (he wants, for example, to make abortion illegal in the case of rape). With the office of the attorney-general supervising everything from antitrust to the protection of abortion clinics and the laws governing the public activities of churches, it is possible to imagine him rolling back almost everything Janet Reno has done.

In short, Mr Bush's cabinet includes both confrontational and co-operative conservatives. If you then consider that the outer circle of cabinet members includes a pro-choice Republican (Christine Todd Whitman) and a Democrat (Norman Mineta), it is clear that ideological coherence is not Mr Bush's

primary concern. His team is conservative, but not doctrinaire.

Rather, Mr Bush is choosing horses for courses. On the campaign trail, he promised to build a national defensive shield against missiles. In Mr Rumsfeld, he chose one of the country's foremost proponents of that system, which grew partly out of the alarming findings of the Rumsfeld commission into the threats of "rogue states". On the trail, Mr Bush promised education reform that gave weight to academic testing and holding schools accountable for measured performance, rather than school vouchers. In Rod Paige, the proposed education secretary, he chose a man who implemented measures just like that as head of the Houston school board. One lesson of the new administration is that it makes sense to take Mr Bush's campaign promises seriously.

The other lesson concerns Mr Bush's own role. It has been widely thought that by appointing heavyweights like Messrs Cheney, Rumsfeld and Powell, Mr Bush would let them do much of his job and recede into the background. This is partly right. Mr Bush's choices do indeed look like the political implementation of Peter Drucker's theory of "management by objectives": set broad goals, delegate, don't micro-manage, and fire the failures. Newt Gingrich loved to talk about applying Mr Drucker's ideas to politics. Mr Bush is actually doing it.

What is misleading is the idea that Mr Bush will be able to recede into the background. Having surrounded himself with powerful figures, he will face the prospect of making tough decisions when the ambitions of his heavyweights clash, or if their cherished schemes cannot get through Congress. In choosing Mr Rumsfeld over the favourite for defence, Dan Coats (for fear that Mr Coats would not stand up to General Powell or to the Pentagon bureaucracy), Mr Bush showed he is capable of not taking the easy way out. He will need more such determination. Far from being a reason for receding into the background, his penchant for delegating to strong figures will be a test of, not a substitute for, his own political skills.

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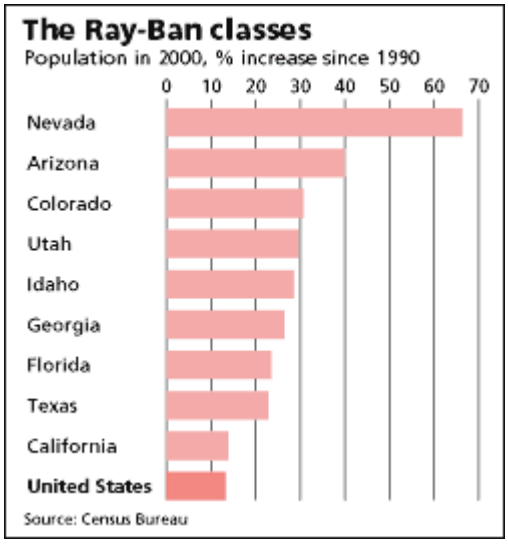
The census

Sun, sun, sun and Idaho

Jan 4th 2001 | WASHINGTON, DC
From The Economist print edition

EVERY ten years, America (after a good deal of fuss about racial categories and undercounting of poor folk) takes its own pulse, and conducts a census. The results of the new sounding are in, with the pulse far stronger in some parts than in others.

Preliminary data just released confirm a trend that has shown up since 1945. America's population is still shifting away from the industrial north towards the Sunbelt states of the South and west: or, to look at it as Republicans like to, from unpleasantly liberal cities to nicer gun-toting-and-commodities-exploiting conservative parts.



While the national population has increased by more than 13% since 1990, the west's population has jumped 19.7%, with Nevada, Arizona, Colorado, Utah and Idaho enjoying the greatest surges. Conversely, many big northern states, such as New York, grew only weakly during the 1990s and will lose congressional seats as a result. Some of the biggest electoral prizes of the 2000 election, notably Michigan, Ohio, Pennsylvania and Wisconsin, will lose seats too, and will thus end up with fewer electoral votes for the next election cycle.

Although the gravitational pull of the Sunbelt is nothing new, the 2000 census data show that the strongest growth is no longer, as it used to be, in California and Florida. According to William Frey, a demographer at the University of Michigan, a "new Sunbelt" has emerged, one that relies on the opportunities of high technology to lure young professionals inward from the east and west coasts. Over the past decade, states like Colorado, Arizona, North Carolina and Georgia have weaned themselves off mining and textiles and on to computers.

In California and Florida, where growth has always come from large inflows of immigrants and old folk respectively, the population has gone on growing, but more slowly than before. Both states will pick up fewer congressional seats than they did after the 1990 census. California was particularly hurt by a crippling recession in the early 1990s, when thousands left the state for the Rocky Mountain states in search of jobs.

One of the biggest winners of the 2000 census (picking up two congressional seats) was Texas, which, according to Mr Frey, represents both the old and new Sunbelts. In recent years, the state has welcomed both infusions of young workers to fill technology jobs and thousands of immigrants coming north from Latin America. Texas has replaced New York as America's second-most-populous state, the first time since 1810 that New York has not been top or second.

More people bring more power, which is why Republicans are salivating over the 2000 census data. Although, taken individually, there is no reason why young computer nerds should vote Republican (most of their votes in November's election seemed to go to Al Gore), their concentration in sunny and mountainous pockets means that states won by George Bush will pick up a total of seven congressional seats and seven electoral-college votes.

Moreover, with Republicans controlling more state legislatures than they did after the 1990 census, the party will be in a stronger position when drawing new congressional districts. Some Republican officials hope to win a dozen new seats. Yet fights over congressional redistricting are usually bloody, and, even when one party controls the process, the other party will often make sure its opponent's schemes end up

in court.

Given the high political stakes, not to mention the $200 billion in federal booty that rides on it, it is no wonder that the census inspires such passions. The controversy this time has been particularly ferocious, as the two parties have wrestled over whether to use statistical sampling to adjust the raw census numbers. Democrats argue that only by adjusting the figures can the census take account of those who are often missed: urban minorities, the rural poor, people who do not own a home. In other words, those who tend to vote Democratic. Not surprisingly, Republicans cry fraud.

Although it will be several weeks before the Census Bureau decides whether the undercount is large enough to make statistical sampling necessary at all, the partisan squabbling has already muddied the waters. Kenneth Prewitt, the director of the bureau, wants to keep his job in the new administration, and has compared the possibility of his removal to firing the head of NASA in the middle of a moon launch. Yet, if the bureau pushes hard for sampling, there may be strong Republican pressure for Mr Bush to remove Mr Prewitt, and find a more Republican-friendly man or woman to guide the splashdown of Census 2000.

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Newspapers in Seattle

Divided we stand

Jan 4th 2001 | SEATTLE
From The Economist print edition

IT IS not unusual for workers in one company to come out on strike to support their comrades who work for a competitor. Only in the American newspaper industry could they support them by going back to work.

Seattle has a fairly normal “competitive” newspaper market for a big American city—ie, a cartel. In theory, its two papers, the *Seattle Times* and the *Seattle Post-Intelligencer*, are at each other’s throats. In fact, ever since 1983, when the afternoon *Times* was on the verge of squashing the morning *Post-Intelligencer*, they have had a joint-operating agreement, under which the *Times* sells advertising and handles the printing for both, though the newsrooms work independently. This circumvention of antitrust laws is permitted in order to preserve two editorial voices in the same city.

Despite the booming local economy, both papers have been losing readers. Last March the *Times* tried to regain circulation by switching to a morning edition. It tried to explain that its trucks were getting stuck in Seattle’s notorious afternoon traffic jams. In fact, it was plainly hoping to kill off its weaker rival. In return for breaking the peace, the *Times* had to accept a revision of the joint-operating agreement and a cut in its share of the two papers’ profits.

In late November, about 1,000 workers from the two papers walked off their jobs, demanding more money and better job security. To begin with, the dispute was a typically polite Seattle affair, the strikers following police limits on how long they could block the roads, the managers bemoaning the absence of their “talented journalists”. But, as losses at the *Times* in particular mounted, the mood soured. The managers said redundancies were inevitable. The unions, angry that the papers were being produced with scab labour and complaining of intimidation, called for a reader boycott.

On December 28th the union tried a new tactic. Workers at the *Post-Intelligencer* voted to return to their jobs, but the *Times*’s workers stayed out. The logic of this decision? A fully staffed *Post-Intelligencer* would gain readers and advertisers, forcing the *Times*, which has much bigger costs, to give in to the workers’ demand.

So far, it has not worked. The *Times*’s managers insist that they will now have to sack about 10% of its workforce, and only gradually bring other striking workers back on board. This week the negotiations moved to Washington, DC. But with no new proposals on the table, no deal seems imminent.

A union spokesman, Ron Judd, scoffs at the notion that the strike is causing irreparable harm to the bosses. But, even with joint-operating cartels, fewer American cities have two big newspapers. The marriage in Seattle was designed to postpone the death of one partner. After the strike, it is no longer clear which will survive.

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Lexington

Filling Pat Moynihan's shoes

Jan 4th 2001
From The Economist print edition

THE retirement of a senator is not usually worth noting. One blow-dried mediocrity exchanges the corridors of power for the money-fields of corporate America. Another blow-dried mediocrity takes his place. And the business of politics goes on.

But with Daniel Patrick Moynihan things are different. Many colourful phrases have been applied to Mr Moynihan during a career that took him from a broken home to 24 years in the Senate, but "blow-dried" and "mediocrity" are not among them. His retirement on January 2nd not only deprives American politics of one of its most rambunctious characters. It also deprives Congress of its last significant intellectual—a man described by the normally sober "Almanac of American Politics" as "the nation's best thinker among politicians since Lincoln and its best politician among thinkers since Jefferson".

This is not to say that post-Moynihan Washington will be bereft of either intelligence or ideas. There are more think-tanks in Washington than ever before, and they are more enmeshed with the machinery of power. And there is no shortage of highly educated people who are willing to spend at least a few years in public life—as the thousands of ivy-clad resumés being processed by Mr Bush's transition team show.

Bill Clinton might have boasted about creating an administration that "looked like America". But he really wanted to create one that looked like the faculty lounges of the Ivy League universities. George Bush affects a Texan disdain for learning; but he still values eggheads like Condoleezza Rice and Myron Magnet.

So why is Washington mourning Mr Moynihan's loss this week? Because Mr Moynihan was unique in two important ways. The first is that he straddled the two worlds of thinking and doing. He didn't outsource his thinking to think-tanks; he thought. Most senators are too busy raising money and pressing flesh to have time to read anything. Mr Moynihan wrote more books as a senator than he did as a Harvard professor. Most public-policy intellectuals never get more of a taste of power than running their faculties. Mr Moynihan was chairman of the extremely potent Senate Finance Committee.

The second reason is that Mr Moynihan was a very different sort of intellectual from the types in the think-tanks. Such folk tend to come in two forms: narrow specialists who know the last detail about tax or tanks (and hang out in the Brookings Institution or Rand); and committed ideologues bent on weeding out the last twinge of socialism (the Heritage Foundation and the Cato Institute). Mr Moynihan is an old-fashioned public intellectual who has dared not only to range across the subjects but also to change his mind on fundamental questions. He worked for Richard Nixon and Gerald Ford as well as for Jack Kennedy. He was one of the architects of neo-conservatism in the 1970s—and one of the leading critics of Clintonism from the liberal left in the 1990s. His washroom on Capitol Hill used to display two magazine covers: a 1979 issue of *The Nation* entitled "The Conscience of a Neoconservative" and a 1981 issue of the *New Republic* entitled "Pat Moynihan: Neo-Liberal".

What is America going to lose with the loss of Mr Moynihan's free-ranging mind? Not a man who was invariably right. Mr Moynihan treated the Senate to a learned disquisition on the history of the British Mandate in Iraq during the Gulf war debate. But that didn't save him from voting on the wrong side. Nor will it lose a great legislator. Mr Moynihan was too much of a loner to become a political power-broker. And he squandered his biggest chance of influence in the 1990s because of a petulant squabble with the

Clinton administration. There is no Moynihan bill to commemorate his 24 years on Capitol Hill.

But it is losing something invaluable nonetheless. It is losing a man with a rare ability to change the climate of opinion—and hence the future legislative agenda. Mr Moynihan did this on a succession of issues. In 1965 he pointed out that family breakdown was contributing to the perpetuation of black poverty in the United States, an argument that was then denounced as heresy but is now treated as a truism. In 1975 he called on the United States to combat the increasingly anti-American line being taken by the United Nations. In early 1993 he laid the intellectual groundwork for "zero-tolerance policing" with an essay ("Defining Deviancy Down") which pointed to the link between the tolerance of small transgressions and the boom in serious crime.

If there has been a common theme in these wanderings, it has been to apply a profoundly conservative political philosophy that is deeply distrustful of government to an activist political agenda. His aim may have been social justice, but he brought to it a conservative's enthusiasm for what Burke called "the little platoons". Hence his interest in questions such as the state of the family and the links between common civility and wider pathologies. And he had a conservative's scepticism about the ability of social policy to change the world, a view that led him to oppose the Gingrichites of the 1990s as vigorously as he had questioned the progressives of the 1970s. "Beware of certainty where none exists," he wrote in 1993, at the time of the welfare reforms. "Ideological certainty easily degenerates into insistence upon ignorance."

Conservative scepticism is not a phrase that comes to mind when you think of Mr Moynihan's successor. Hillary Clinton is a product of the ideological certainties of the 1960s who has gone on to transform herself into the perfect professional politician. And she and Mr Moynihan have been on bad terms ever since he denounced her health-care plan as "boob bait for bubbas". But she might profit from sipping at least a little from one of the bottles from which Mr Moynihan has drunk so copiously. A little more conservative scepticism would have saved her from wasting the first Clinton administration on a pie-in-the-sky scheme to revolutionise the tenth or so of the American economy that goes by the name of health care. And a little more conservative scepticism over the next few years may transform her into a far more formidable legislator than Mr Moynihan ever was.

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Education in California

Stand in line!

Jan 4th 2001 | SAN FRANCISCO
From The Economist print edition

IT IS, some will think, a straight case of educational correctness. Since November's election, the "progressive" faction on San Francisco's school board has been in the majority. The new majority intends, as one of its first acts, to eliminate the city's only charter school run by a private corporation.

Edison Charter Academy in the Mission, a Latino district of San Francisco, has been run since 1998 by Edison Schools, a New York firm that manages 113 schools around the country. The firm operates schools under contract to state education authorities, and aims to make its money by running them more efficiently than the states, rather than by charging fees. (In the year to September 2000 it actually made a loss of $40.5m on sales of $248m.)

When Edison got the contract, the school was in bad shape. In 1996 the school district had replaced the entire staff, but three head teachers had come and gone since then, and the pupils were still getting some of the worst test scores in the city. Of the ten-year-olds leaving the school, 98% could not read at the standard expected for their age. Since the takeover, things have improved. Now 34% of the ten-year-olds are up to standard on reading. Of the 71 schools in San Francisco, Edison Charter has made the third-best improvement in the scores of its students on the state's standardised academic tests.

There have also been problems, to be sure. Almost two-thirds of the teachers, including the headmistress, left at the end of the 1999-2000 school year, complaining of overwork. Although Edison pays salaries 10% higher than the state's pay-scale, its schools have longer days and longer terms; in the past year Edison Charter was open for 210 days, compared with 181 for other San Francisco schools. There have been complaints, too, that the curriculum, known as the Edison design, is too rigid.

John Chubb, Edison Schools' chief education officer, acknowledges that the firm did not pay enough attention to the complaints of the teachers last year. It has cut term times for this year, shortened the school day and given teachers a pay rise. Vincent Matthews, the new headmaster, says that his staff are now all enthusiastic. Above all, he says, parents are proud that their children are doing better than before.

Mr Matthews has the support of Mary Hernandez, the current president of the San Francisco school board. But she looks certain to be deposed at the first meeting of the new board—and replaced by Jill Wynns, one of the four anti-Edison members who have held a majority since the November election.

Some of the ill feeling dates back to the somewhat arbitrary way Edison was first given the charter. Ms Wynns also makes much of the complaints of the teachers who left last summer. Her chief objection, however, is one of principle. She does not feel that the pursuit of profit should play any part in state schools.

Ms Wynns believes that, by striking independent deals with teachers and setting its own standards, Edison threatens the collective efforts of teachers in San Francisco to raise standards throughout the school system. A firm with its headquarters in New York, she suggests, cannot properly understand the requirements of pupils in a place with the mixed racial composition of California (not that New York is exactly uni-racial); nor does Edison really abide by the state's rules about racial diversity among teachers. Improvements in test results, in her eyes, are merely evidence that Edison concentrates on teaching children to pass the test, rather than adapting tuition to the different needs of different children.

Ms Wynns and her allies in the progressive faction intend to cancel Edison's charter. They claim their election victory—won despite generous financial support for their opponents by shareholders in Edison—as their mandate. Nobody knows whether the pupils of Edison Charter, and their parents, feel the same about a school that has, on the face of it, got better, not worse, by being different.

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Sign on, opt out

Jan 4th 2001
From The Economist print edition

BILL CLINTON'S decision to sign the treaty creating a new International Criminal Court delighted human-rights campaigners. He made it just hours before a December 31st deadline expired, and thus encouraged both Israel and Iran to sign up too, bringing the total number of signatories to 139 countries. Mr Clinton said that he was reaffirming America's "moral leadership". In fact, no one, including Mr Clinton, expects the United States to ratify the treaty in the foreseeable future.

The treaty to create a permanent court to try those accused of atrocities was drafted in Rome in 1998. The Clinton administration supported the idea of a permanent court to succeed the ad hoc tribunals set up by the United Nations Security Council to try those responsible for atrocities in ex-Yugoslavia and Rwanda, but thought it should also be a tool of the Council, where the United States has a permanent veto.

America's allies, including most NATO members, decided that such a body would be too open to political manipulation. They opted for a court largely independent of the Security Council, with universal jurisdiction and its own decision-making power. America balked at this, and then tried to win for its citizens an absolute exemption, arguing that, as the sole superpower, it could not take part in peacekeeping operations worldwide if its troops might be subject to prosecutions.

America's allies, many of which also send troops on peacekeeping missions, refused to grant an absolute exemption (considering that fatal to the court's credibility), but did restrict the court's powers. It will not be able to intervene unless it is clear that national authorities cannot, or will not, punish alleged wrongdoers. But this was not enough for the Pentagon.

As Mr Clinton made clear, one reason to sign this week was to keep America's seat in the various technical meetings which will continue this year to nail down the treaty's details. Oddly, America has now signed the treaty so that it can keep pushing for a giant loophole—an exemption, as Mr Clinton specifically said, for those countries that do not ratify it. This makes sense only if America has no intention of ever ratifying the treaty.

In fact, American ratification is not likely for years. Leading members of George Bush's administration are on record as being opposed to the court. Jesse Helms, the powerful chairman of the Senate Foreign Relations Committee, is determined to block it.

On the other hand, Mr Clinton has kept open the door to eventual ratification, perhaps a decade from now. And his decision to sign is an admission that America's campaign against the court has, so far, failed. Some 27 countries have ratified the treaty and others, including Britain, are due to join them in the next few months. Once 60 countries have ratified, the court will be born, despite America's best efforts.

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John Midgley

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From The Economist print edition

Reviewer of the world

WHEN, in 1976, John Midgley was awarded the CBE for telling readers of *The Economist* about the United States, he took particular delight in the fact that he went by bus from work to accept the decoration from Queen Elizabeth (who was staying in Blair House in Washington), and was in and out quick enough, downing a gin and tonic on the trot, to use the transfer ticket to go out to dinner.

He was a print hack all his life, splashing out on fun and friends, but never bothering to make his name known, or his wallet fatter, with books or broadcasting. The possessor of fine intelligence, he was not on a soap-box, or bent on influencing the great and good, though he got their attention just the same. His job, he once said, "was to assist the reading public to understand what was going on". He conveyed his liberal view of the world with great clarity but "if you can't give [people] useful information, you can shut up." He finally did shut up, just before Christmas.

Midgley, born in the working-class north of England in 1911, was in military intelligence during the second world war, trying to work out Germany's intentions. He then turned to journalism, dodging for a time between *The Economist*, the (then) *Manchester Guardian* and the *Times*, as leader writer and foreign correspondent. In 1956 he landed on *The Economist* and, luckily for us, stayed there, until and beyond his retirement, contributing a book review days before he died.

He was foreign editor for seven years, pulling foreign coverage together in (his own words) "a reasonably satisfactory manner". He was a brilliant, scary teacher to a classroom of aspiring hacks, not lazily rewriting their pathetic stories but throwing them back to be redone, with advice that burns to this day. He also, less brilliantly, sent Kim Philby, whom he had known at Cambridge, to string for the paper from Beirut, until the spy's mask fell off and he fled to the Soviet Union.

In 1963, after a bit of an upheaval at *The Economist*, he went off to be Washington correspondent and, from then on, everything fell into place. He excelled at his job, lucidly explaining American affairs even to Americans themselves as well as to the rest of the world. He married Elizabeth, a producer at CBS, and they looked after each other with love and wit. Their house in north-west Washington was a warm and lovely meeting-place. His was a good life, the second half especially.

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The battle begins for Cardoso's succession

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From The Economist print edition

If Brazil's president is to secure the election of his chosen successor, he must overcome not just a popular opposition but the rivalry in his own coalition

IT IS a ragbag of political opposites, regional factions and those who are simply in it for what they can get out of it. But the coalition of parties—sometimes five, at present four—that has backed Fernando Henrique Cardoso since he first ran for president in 1994 has achieved much. In its lifetime, even if not always with its help, inflation has been overcome, the government's finances have been stabilised, businesses worth $69 billion have been privatised, and school and university enrolments are at record levels.

The coalition, ranging from soft-left to hard-right, has stuck together despite constant feuding. But in the past few weeks some unusually fierce rows have suggested that it could fall apart. In a radio interview on December 26th, Mr Cardoso felt obliged to appeal to the "survival instinct" of his allies.

Two things are behind the feuding. The main one is the next presidential election. Although this is not due until October 2002, it is already dominating Brazilian politics. But there is another, more immediate reason for discord: elections next month for the coveted presidency of the Senate and that of the Chamber of Deputies.

These congressional votes have had two of the coalition's heavyweights at each other's throats for months. The outgoing Senate president, Antonio Carlos Magalhaes, of the free-market Liberal Front Party (PFL), is desperate to stop Jader Barbalho, a boss of the catch-all Brazilian Democratic Movement (PMDB), from gaining the post. Instead, Mr Magalhaes wants to install Jose Sarney, who was Brazil's president in 1985-89, and the Senate president from 1995 to 1997. He belongs to the PMDB but is closer to Mr Magalhaes's faction of the PFL.

Mr Magalhaes has branded his rival a "thief". "Corrupt," shouted back Mr Barbalho. After Mr Magalhaes alleged fraud in the transport ministry, a traditional pork barrel now run by the PMDB, Mr Barbalho last month responded with a demand that Congress should set up no fewer than three special committees to investigate his foe.

Between them, the PMDB (98 seats in the 513-seat lower house) and the PFL (102 seats) account for a majority of the coalition. Mr Cardoso has tried to keep out of their row: whatever he does, he will upset at least one of the powerful groups that support him in Congress. But the longer it rumbles on, the more likely it is to cause a permanent rift. So he is likely to try to broker a compromise, and then to shuffle his cabinet to appease the "losers" with ministerial posts.

Assuming the coalition survives these ructions, Mr Cardoso can then concentrate on guiding it into securing the election of his chosen successor. On the face of things, that looks tricky. Mr Cardoso became deeply unpopular in the aftermath of Brazil's devaluation in January 1999. In municipal elections in October, the opposition Workers' Party (PT) did well. Of Brazil's 62 big cities (those with more than 200,000 electors), it won 17 (up from five), including Sao Paulo, the largest. Luiz Inacio Lula da Silva, the PT's leader, is likely to be its presidential candidate for a fourth time, and leads the opinion polls.

But Mr da Silva is distrusted by many voters, and is unlikely to win. The government coalition, provided it stays together, has an advantage in organisation and money. Mr Cardoso's popularity is recovering, in line with the economy, and should continue to do so, provided that Brazil is not hit by a worldwide downturn. Unemployment, though still voters' main concern, fell to 6.2% in November, down from 7.3% a year earlier, according to the official figures. It should fall further by the election.

Two Social Democrats

That, together with a desire to delay becoming a lame duck, is why Mr Cardoso will try to wait as long as possible before anointing a successor. But, awkwardly, the jockeying has already started, earlier than usual, with different parts of the coalition grouping around two names—both of them friends of Mr Cardoso and members of his Brazilian Social Democratic Party (PSDB).

The early front-runner—and Brazil's likeliest next president—is Tasso Jereissati, who is in his third term as governor of the north-eastern state of Ceara. He has already been endorsed both by the PFL's Mr Magalhaes and by Mario Covas, the influential PSDB governor of Sao Paulo. Under Mr Jereissati, Ceara has been widely seen as a model of competent administration and of pioneering social policies, such as land reform and primary health care. Mr Jereissati is also a businessman, whose family has interests in Sao Paulo. He would have no difficulty raising campaign money. One concern is that he suffers from heart trouble.

Mr Jereissati's main rival so far is Jose Serra, the health minister. He has support among those who hanker for more social spending and more government intervention than Mr Cardoso's orthodox economic team has allowed. Mr Serra has been an effective health minister: Brazil's anti-AIDS programme is seen internationally as a success, and he has battled drugs firms over the high cost of medicines. He is from Sao Paulo, but failed in a bid to become the city's mayor in 1996. Mr Serra's abrasive personality and taste for political intrigue have made him many enemies.

Both men score poorly in the opinion polls, mainly because many voters hardly know them. They trail the PFL's Roseanna Sarney, the daughter of the former president and herself a two-term governor of Maranhao, Ceara's north-eastern neighbour. She gets on well with Mr Cardoso, and could be his choice if the president is unable to gain support for a PSDB candidate. But she is more likely to seek a Senate seat, or the vice-presidency, and wait for 2006 (though she, too, has had health problems). For its part, the PMDB, a collection of regional barons, has no obvious candidate of its own.

Wait and see

So for the next few months, Mr Cardoso is likely to wait to see which of his fellow Social Democrats gains the edge among the coalition's politicians before making his preference public. Whoever it is will face a tougher fight than Mr Cardoso himself did in 1998, when he was still basking in the popularity of his inflation-beating *real* plan.

As well as the PT, a challenge may come from Ciro Gomes, who won 11% of the vote in 1998 as a populist independent. A former finance minister, he is now the candidate of a small leftist party. But he is close to Mr Jereissati, and has said he would not run against him. Itamar Franco, Brazil's caretaker president from 1992 to 1994 and now the maverick governor of Minas Gerais state, may also run.

Despite its firm recovery from the devaluation, Brazil has many discontents, from social problems to corruption. One day, the voters may turn to the PT for a president, especially if the party's new crop of moderate mayors, such as Marta Suplicy in Sao Paulo, does well. But provided that Mr Cardoso can steer his quarrelsome alliance through the challenges of the coming weeks, and that the economy continues its steady growth, then the chances are that in two years' time he will place his sash of office on the shoulders of a friend rather than of a foe.

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Divided about the dollar

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From The Economist print edition

THROUGHOUT the 20th century, Latin American governments, if not always their peoples, stuck doggedly to national currencies, despite their frequent depreciation. The sole exception was Panama: it owed its creation as a country to the United States, and used the dollar from the start. Now, a new century is bringing a change of pecuniary loyalty elsewhere.

It began with Ecuador, whose sucre was withdrawn in favour of the dollar last year. On January 1st, the dollar became legal tender in El Salvador. The colon, the existing currency, will be phased out gradually. Next may be Guatemala: on December 19th, its Congress approved a measure that allows dollars to be used freely alongside the quetzal. That may be the first step to full dollarisation. Some officials in Costa Rica also favour this.

In Ecuador, dollarisation was a desperate measure, aimed at staving off hyperinflation. In El Salvador, the motive is different: the country has been a model of free-market reform, and has one of the world's most open economies. The colon had been fixed at 8.76 to the dollar since 1994. The current-account deficit is small, thanks to the 1.5m Salvadoreans who live in the United States and who last year sent a record $1.6 billion home in remittances.

But El Salvador is finding it hard to match its high growth rates of the early 1990s. The conservative government hopes that dollarisation will cut borrowing costs, which start at around 15%. For similar reasons, most or all of El Salvador's similarly small Central American neighbours could soon adopt the dollar, though public opinion is lukewarm. For all of them, the United States is the main trading partner.

So does Latin America's future lie with the dollar? Probably not. In a contrary move, the region's larger countries have mainly switched to floating exchange rates, adopted with success by Mexico (1995), Brazil, Chile and Colombia (all in 1999). By contrast, Argentina, whose peso is fixed at par with the dollar, is languishing in a long recession. On December 18th, the IMF completed details of a $39.7 billion financial-aid scheme for the country.

Though guardedly welcoming dollarisation, the United States has done nothing to hasten it, such as giving other countries a voice in its monetary policy. So the Mercosur countries, which have relatively weak trade links with the United States (only 11% of Argentina's exports go there), have little to gain by adopting the dollar—and much to lose in policy flexibility.

Not so Mexico: its economy is closely linked to that of its northern neighbour through NAFTA. Some prominent Mexican economists, such as Francisco Gil Diaz, argue that the country would benefit from monetary union with the United States. But Mr Gil, who became finance minister in Vicente Fox's government last month, also recognises that the political will is lacking. The *yanqui* dollar is still a hard sell for Latin American politicians.

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Bolivia

Coca's second front

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EVEN Bolivian officials admit that at least 300 hectares (740 acres) of coca survive in the Chapare region of Bolivia's tropical lowlands. Others put the figure higher. Nevertheless, President Hugo Banzer's government decided to declare victory in its battle to wipe out the hardy shrub, from which cocaine is derived, in what was its main growing area in Bolivia. At a ceremony beside a military base a few days before Christmas, Mr Banzer and Manuel Rocha, the United States' ambassador, formally ended a campaign that has seen 40,000 hectares of coca eradicated in the Chapare since 1998.

That is a rare achievement in the South American drug war. It has come at a price in the lives of protesters and police, and in coca farmers' livelihoods: although alternative development projects have carpeted bits of the Chapare with bananas, pineapples and the like, they have provided much less employment than coca. During the ceremony, several hundred protesters scattered piles of coca leaves over a main road nearby.

Mr Banzer can claim to have more or less fulfilled an election pledge to end Bolivia's role in the international drug trade. Even so, at American prodding, he is preparing to fight another, and still harder, coca battle, in the Yungas, an area of tropical valleys north of the capital, La Paz. Unlike the Chapare, where large-scale coca production began in the 1970s to supply the drug trade, the Yungas has seen the cultivation of the shrub since before the Spanish conquest.

Bolivia's anti-drug law allows 12,000 hectares of Yungas coca, to satisfy demand for its traditional uses. These include chewing the leaves to mitigate the rigours of Bolivia's bleak Altiplano, 4,000 metres (13,100 feet) above sea level, as well as the coca tea given to tourists on arrival in La Paz.

The government, relying on American satellite-derived data, claims that coca cultivation in the Yungas exceeds the legal limit by some 2,000-3,000 hectares. Critics dispute this, arguing that the figures include abandonded terracing. In 1999, a land-use survey carried out for local municipalities by independent consultants found only about 9,000 hectares of coca.

Nevertheless, the government plans to start eradicating the presumed surplus in March, and to finish the job before Mr Banzer's term ends in July 2002. As in the Chapare, villages that "voluntarily" agree to stop growing coca will be paid $2,500 per hectare, as well as being offered help with alternatives, such as coffee.

Not enough, say the farmers. In the Chapare, coca was planted on flat land and could be harvested in its first year. By contrast, in the steep, high valleys of the Yungas, coca cultivation is a slow and back-breaking business, involving building and maintaining terraces and a three-year wait for a first crop, according to Fidel Ticon, a farmers' leader. "Even if they offered us $10,000 per hectare, it would not be enough," he argues. Neither is it easy to grow other crops in the Yungas, where alternative development has already been tried, unsuccessfully. Between 1984 and 1993, the UN spent $32.4m there, with nothing now left to show for it.

In what looks like the first step in its Yungas campaign, the government is squeezing the tightly-

regulated legal coca market. By law, all coca produced in the Yungas must be taken to La Paz, where it is bought by 700-odd registered retailers.

The government recently slashed the maximum amount the retailers are allowed to buy, from 500lb (225kg) a month to 300lb. As a result, the retail price around the country has risen while the price paid to the producers has fallen, and the accumulated surplus of unsold leaves on the farms is being snapped up for cocaine production, according to Dionicio Nuñez, of the Yungas Farmers Federation. He argues that this is a government ruse to bolster public support for its coming offensive.

Mr Banzer may be right in saying that some Yungas coca is supplying the drug trade. But most is not. Many Bolivians came to accept coca eradication in the Chapare as a necessary attack on organised crime. It will be much harder to persuade them that the same applies in the Yungas.

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Mexico

No, you can't

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"WHO says you can't?" The slogan must have gone to Roberto Madrazo's head. The outgoing governor of the south-eastern state of Tabasco uttered it countless times during his failed campaign in 1999 for the presidential nomination of Mexico's Institutional Revolutionary Party (PRI). In the approach to Tabasco's state election in October, Mr Madrazo put his phrase into sharp practice, illegally spending state funds and coercing voters to make sure that a PRI man whom he had picked won the governorship.

So, at least, thought the Federal Electoral Tribunal, which on December 29th annulled the Tabasco result after opposition complaints. It was the first time a Mexican election had been legally overturned—something unthinkable for most of the seven decades of the PRI's rule, which ended only when it lost the presidency last year to Vicente Fox.

But Mr Madrazo is a man from the PRI's old school. Defiant as ever, he got the outgoing PRI-controlled state legislature to nominate an ally as interim governor, and to extend the time limit for holding a new election from six months to 18. "Who says you can't?" chanted PRI congressmen as they welcomed the new governor, Enrique Priego, on the last day of the year.

They got their answer quickly. Less than 48 hours later, the new legislature, in which the PRI has only a narrow majority, selected a rival interim governor, Augusto Lopez. He, too, is from the PRI, but is not an ally of Mr Madrazo, and so is acceptable to the opposition. Then, while Mr Lopez's swearing-in was delayed by arguments (and fists) flying over which interim governor should take office, Mr Madrazo flew to Miami.

For Tabasco, the rumpus is bad news. Political tensions have run high there since Mr Madrazo became governor six years ago, after a campaign of even greater alleged irregularity than this year's. It is worse news for Mr Madrazo, a rebel against the PRI's transformation into a modern democratic party. His "Who says you can't?" slogan in the PRI presidential primary was a cocky call to arms for traditional PRI activists, who felt that the party's gradual modernisation and Mexico's economic liberalisation, led by such people as Ernesto Zedillo, the country's last PRI president, betrayed party values.

After the PRI lost the presidential election last July, many party activists blamed Mr Zedillo and looked to Mr Madrazo for new leadership. Retaining Tabasco for the PRI would have been a big step in his effort to become the party's chairman. But his reputation is now ruined, by his dirty tricks, his ignominious defeat and then his departure—reminiscent of the recent disappearances of other disgraced Mexican politicians.

Mr Madrazo's downfall has cast further confusion over the PRI's future. The PRI's current executive committee is an interim group, charged with running the party until a national assembly can be held to choose new leaders. This has been repeatedly delayed, largely at Mr Madrazo's urging. There is no date fixed for the assembly, nor are there any obvious candidates to head the party.

With Mr Madrazo discredited, PRI modernisers have an opportunity. Some, such as Agustin Basave, a former head of the Colosio Foundation, a PRI think-tank, propose forming an entirely new party, with a new name. Mr Basave would leave behind the PRI's traditions of close corporatist ties with trade unions, business associations and popular organisations. But the PRI is home to many groups, and to even more personal ambitions.

Wisely, Mr Fox has kept well away from the Tabasco row. For Mexico, it would be a novel and salutary experience for a local political dispute to be settled by the institutions of law, rather than by presidential fiat. But for the PRI, the lesson from Tabasco is that more conflict lies ahead.

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Cooling it in Kashmir

Jan 4th 2001 | DELHI
From The Economist print edition

India and Pakistan are moving towards historic talks on Kashmir. But the hard part is just beginning

AP

IN THE past, thaws in relations between India and Pakistan have usually portended avalanches rather than spring. Yet the chances for at least starting talks about the disputed state of Kashmir—such talks to encompass India, Pakistan and separatists from the part of the state ruled by India—are the best they have been in nearly two years.

In December India's prime minister, Atal Behari Vajpayee, extended until January 26th the unilateral ceasefire in operations against armed separatists in Kashmir that he started in Ramadan, the Muslim holy month. A delegation from the All-Party Hurriyat Conference, the main political grouping of separatists, may soon be allowed to go to Pakistan to obtain the blessings of its government and (less likely) of militant groups based there, most of which oppose a peace process. Talks between the Hurriyat and the Indian government could begin soon after that. "We shall be bold and innovative designers of a future architecture of peace and prosperity," declared Mr Vajpayee in a newspaper article he wrote during his winter holiday in the backwaters of Kerala.

Pakistan has answered in kind: on December 20th it withdrew some of its troops from the "line of control", the unofficial border that divides Kashmir into Indian- and Pakistani-controlled zones. Pervez Musharraf, Pakistan's military ruler, has softened his country's earlier insistence that it should be party to any negotiations from the outset. India rejects "tripartite" talks because it regards Kashmiri separatism as an internal matter. Pakistan now says that talks can begin between the Indian government and the Hurriyat; Pakistan can join later. This is a "shift in Pakistan's focus", says Khalid Mahmud of the Institute of Regional Studies in Islamabad. "Kashmiris occupy centre stage for the first time."

In Kashmir, there is some relief. The security forces have been ordered to strike only after being struck, and shelling across the border has declined. Roadblocks and cordon-and-search operations, the bane of daily life, have been reduced. Hope is stirring for an end to the violence.

But the peace process could yet collapse before it gets going. Pakistan-based militant groups, especially those dominated by non-Kashmiris, are trying to make that happen, with attacks on Indian security forces and others, one of them at the Red Fort in Delhi, where independent India raised its flag for the first time in 1947. Mr Vajpayee says that Pakistan cannot talk to India until it does more to rein in "terrorist organisations". The Hurriyat's trip to Pakistan, due in mid-January, is being complicated by Indian hesitation about giving passports to all seven of its leaders, including pro-Pakistan hardliners. Kashmir's pro-Indian state government meanwhile says it will hold local elections this month, an attempt, say the separatists, to scuttle the peace process.

What makes these obstacles surmountable is that the three main participants want the process to begin. India is keen to talk to disgruntled Kashmiris, and recognises it cannot get far without the co-operation of Pakistan. The Hurriyat, though divided over issues such as whether merger with Pakistan is preferable to independence, is eager for a political solution after years of fruitless war. And Pakistan, internationally reviled for its military government and its failed attempt in 1999 to seize territory on India's side of the line of control, would regard dialogue with India about Kashmir as a diplomatic coup.

But none of this necessarily means that thinking has changed enough to keep talks going once started, let alone to produce a settlement to a dispute that has brought about two wars and a 12-year insurgency involving some 35,000 deaths. Observers in India and Pakistan doubt that their governments have shed the inhibitions that have stymied any settlement for half a century. Amitabh Mattoo, a scholar at Jawaharlal Nehru University in Delhi, thinks that the most India can offer Kashmir is "full autonomy" within India; Pakistan, India hopes, will settle for the portion of Kashmir it already controls. But, says Mr Mahmud in Islamabad, Pakistan's willingness to let the Hurriyat talk to India is "based on the assumption that Kashmiri leaders will not settle for autonomy."

This clash over final results could matter soon, because it bears on how the talks will be structured. The longer India talks separately to Kashmiris and to Pakistanis, the better its odds of striking a deal with the former and presenting it as a fait accompli to the latter. The sooner the two tracks are brought together, the bigger the say Pakistan will have in the final disposition of Kashmir.

Both sides have powerful reasons to hold fast to their traditional positions. India, which has had to battle many other separatist movements, never stops worrying about its "territorial integrity" and about what would happen to its 130m Muslims if the only Muslim-majority state were allowed to secede. Many in Mr Vajpayee's party regret that Kashmir has been given more autonomy than other states, since they fear this may represent a precedent.

For its part, Pakistan's army owes its privileged position to strife with India. Even if General Musharraf is willing to give that up, he is vulnerable to charges of treachery by Islamic zealots, many of whom are armed and who have friends in the army. The leader of one prominent group recently called him a "security risk" to Pakistan.

The next few weeks may disclose whether inhibitions can be broken. Mansoor Ijaz, a New York-based financier who has helped facilitate the peace process, says that General Musharraf is "assembling a team of like-minded generals" who believe that the Kashmiri freedom movement has been hijacked by Islamic fundamentalists. Their backing could help General Musharraf to be flexible. India's foreign minister is expected soon to visit Saudi Arabia, source of much of the money on which the most implacable militants depend. An understanding between the two governments could curb the flow of funds.

If the zealots are tamed, a formula might be found that gives Kashmiris some form of "self-determination", credits Pakistan with a victory on their behalf and preserves India's territorial integrity. India now seems keen to improve the lives of ordinary Kashmiris. The question is whether it can do the same for one worried Pakistani general.

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Pakistan's peculiar election

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THE first step in General Pervez Musharraf's plan to restore "real democracy" to Pakistan, in the shape of non-party local-government elections, was taken on the eve of the new year, when Pakistanis voted for their local representatives in 18 of the country's 106 districts. The turnout was said to have averaged about 40%, a respectable level, though the political parties, which were banned from the contest, disputed the figure.

Reuters

Musharraf, the man with the plan

To ensure that all went smoothly, the candidates were carefully vetted by Pakistan's extensive intelligence establishment. Before giving approval to their candidatures, local magistrates asked them to prove their credentials as "good Muslims" (recite this prayer, explain that ritual, who was so-and-so in Islamic history) and sign affidavits that they were not loan-defaulters or tax-evaders.

The final results of the first round will be declared on January 6th. The local elections are due to proceed in stages between now and August 2001. They will be followed by provincial elections in the summer of 2002 and federal elections before the end of October 2002 (three years after the general's coup), according to the timetable set by the Supreme Court, which General Musharraf says he will respect.

But lapses are already apparent. General Musharraf had promised that the "corrupt power-brokers" in the two mainstream political parties, the Muslim League and the Pakistan People's Party (PPP), would be wiped out in his "revolutionary" scheme of things, so that power would eventually devolve to the common folk of the country. But the age-old power and patronage system has reasserted itself with a vengeance, especially in the rural areas, with 60% of the seats likely to have been won by candidates propped up by the two parties. Indeed, the sweeping victory of Benazir Bhutto's PPP in her home province of Sindh has raised the spectre of ethnic separatism all over again. But at least the voters have apparently stuck to another tradition by spurning all the religious parties, which made a poor showing.

If General Musharraf has failed to change the political landscape very much by holding these elections, his hope that political representation would expand horizontally by reserving a large chunk of the seats for women and minorities (35%) has also been thwarted. The leaders of the minority communities, mainly Christians in Punjab province and Hindus in Sindh, objected to the "separate-electorate" system (non-Muslims cannot vote for Muslim candidates and vice versa) ordained by the military regime, and asked their followers to boycott the polls. Those candidates who did not pull out were elected unopposed. Similarly, a third of all the female candidates, mostly retainers of powerful feudal families or party-political activists, were elected unopposed and a third of the seats remained uncontested, highlighting the continued dominant influence of tribal and semi-feudal conservative traditions.

Critics are especially unsparing about the government's decision to wait six days before announcing the results. Given Pakistan's history of rigged elections, the fear is that the authorities in Islamabad will use the time to knock out many politically unacceptable candidates and tailor the results to their liking on one pretext or another. Equally, the decision to stagger the local elections over the next six months suggests the central government is anxious to keep control. The actual process of empowering the mayors at the top of the local-government tier will begin only after the elections have been completed and legislation has been decreed about the distribution of powers between local- and provincial-government officials.

Although these elections have provided few surprises, the next few rounds could be more interesting because the political road map will be clearer, say pundits. Either there will be a restoration of the traditional power elites and General Musharraf's plans for a more democratic devolution of power will fall flat, or the armed forces will be obliged to engineer the results, leading to an erosion of legitimacy for the whole exercise. In either case, the generals may find they have taken on more than they can chew, even

in this modest exercise in electoral democracy.

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Indonesia

Talking about a devolution

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The new efforts to devolve power to Indonesia's regions may cause more problems than they solve

AP

THE long-awaited attempt to shift more power to Indonesia's regions got off to an uninspiring start this week. Before the newly-empowered districts and provinces could flex a muscle, the architect of the scheme asked to leave the cabinet.

The former regional-autonomy minister, Ryaas Rasyid, believes the whole scheme has been botched. His ministry was abolished in August, less than a year after it was set up, and replaced by a "directorate general" in the interior ministry. Mr Ryaas was then pushed, unwillingly, into a new role as minister for administrative reform. He had been talking of quitting for weeks and spoke of a "difference of vision" after meeting President Abdurrahman Wahid last week. The president has turned down his resignation, at least until he can hear the views of Vice-President Megawati Sukarnoputri, who is on a pilgrimage to the Muslim holy places in Saudi Arabia.

Regional autonomy was once a cherished aim of Indonesia's reform movement, but there was little celebration to mark its arrival on January 1st. Parliamentarians in Jakarta's city legislature walked out during a debate to complete the 2001 budget. In Gorontalo, one of four new provinces, several people were killed in rioting.

Mr Ryaas says the new legislation, which he was instrumental in drawing up, risks failure unless there is a strong ministry or agency to handle its implementation. Already the government is behind in issuing practical guidelines for devolution (14 regulations and 177 decrees should have been put out by now), which risks becoming an unco-ordinated mess open to corruption.

One difficulty is that few agree on what the purpose of decentralisation should be. It was first mooted by the government of President Suharto in 1997. After he fell in May 1998, the idea was picked up by those who feared that a new strongman could emerge within the central government. Now the main question seems to be about who should control the revenues from various taxes and from the exploitation of the regions' natural resources.

Two laws in 1999 which broadly shifted resources from central to regional government raised more questions than they answered. Politicians in the centre worried that the extra financial clout of the provinces could encourage separatists. That seems a genuine risk in separatist-minded Irian Jaya and Aceh, both rich in natural resources. So most of the new powers were given to districts and municipalities, bypassing the provincial governments, although Irian Jaya and Aceh will still get "special autonomy" packages later this year.

The districts will now get 80% of the income from most mining and forestry operations, 30% of earnings from natural gas and 15% from oil. They will also get a fifth of local income-tax receipts and at least a quarter of a special fund of centrally collected revenue. Receipts from this fund could amount to some 80 trillion rupiah ($8 billion) this year.

Despite this largesse, the recipe is almost certain to leave people unhappy. Even before it began on January 1st, problems arose. Some local legislatures have begun to demand bigger payments from foreign mining firms working on their turf. Elsewhere local representatives have insisted that their

leaders should be “sons of the local soil”, and have tried to force out well-qualified incumbents. More corruption is widely expected in local government, and environmentalists warn that money-hungry local governments will encourage faster timber extraction and so quicker deforestation. And some local governments even want to get their hands on VAT and corporate taxes, which now go to the centre.

Even if it keeps control of those, the central government and some poorer regions will now have less to spend. Much of Indonesia’s mineral wealth is concentrated in just four of its provinces, rebellious Irian Jaya and Aceh among them. Without plump revenues from these, Jakarta will find it harder to dish out subsidies to resource-poor parts of the country.

This could in turn cause even more fragmentation. Already, in the past two years, four new provinces have been set up; other places are clamouring for provincial status. Rule from Jakarta is increasingly shaky in some outlying areas. In war-torn Aceh and Maluku, for example, there is even a shortage of judges to staff the courts. Rather than solving Indonesia’s problems, this messy decentralisation scheme may make them worse.

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Japan's new bureaucracy

Jan 4th 2001 | TOKYO
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THE new year in Japan is always a time for house cleaning. This year, however, the government is giving itself a special dusting down. Japan's civil service is enduring its most thorough reform since the Americans occupied the country. Beneath a cloud of paper in Kasumigaseki, Tokyo's bureaucratic district, whole ministries are vanishing, merging with each other, or at the very least getting new names. By January 6th, when the removal vans leave, nearly $400m will have been spent shifting 33,000 bureaucrats and their files about the place. The result, say officials, will be smaller government, stronger political leadership and a bureaucracy ready to serve, not rule. Yet opinion polls suggest just one in five Japanese believes them.

The government is undeniably about to get smaller. Mergers will cut the number of ministries and agencies from 22 to 12, and one in four civil-service jobs will go over the next ten years. The politicians, meanwhile, get new jobs inside each ministry that are meant to give them more say in policymaking. Most important of all are new powers for the prime minister, who gets a strengthened Cabinet Office, lots more staff and, in theory at least, a much bigger say in government spending.

In practice, however, not all of these changes are likely to work exactly according to plan. The Cabinet Office was supposed to secure a measure of independence by recruiting many of its staff from outside the civil service. But Japan's rigid hiring practices have made this difficult. So almost all the important posts have been filled by the usual career bureaucrats.

Reforms to the bureaucracy, meanwhile, look a mixed bag at best. Having already lost its authority to regulate banks, the once-mighty Finance Ministry has ceded more ground. A new body, under the Cabinet Office, will now draft the outline of the national budget. The Finance Ministry looks a softer target than the big spending ministries, with their well-organised networks of friendly politicians. No one has explained how merging the Ministry of Posts and Telecoms, the Management and Co-ordination Agency and the Ministry of Home Affairs will make any of them more efficient.

Other changes seem to run counter to the desired direction. Under the politicians' original plan, drawn up in 1997, the power of the public-works bureaucracy was to be weakened by splitting the Construction Ministry in two. Perversely, it has instead got bigger, merging with the Transport Ministry, the National Land Agency and the Hokkaido Development Agency to create a monster that will control nearly 80% of public-works spending. Try reforming that.

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Kazakhstan

Coming home

Jan 4th 2001 | NURLY
From The Economist print edition

ON A map, Kazakhstan looks impressive enough, covering an area the size of Western Europe. But it is mostly empty space, with a population of under 17m. With expansionist powers such as Russia and China for neighbours, Kazakhstan's leader worries that some day someone will develop an appetite for its territory. President Nursultan Nazarbaev's big idea has been to invite home all those Kazakhs, with their families, who left the country when it was part of the Soviet Union, or whose ancestors left even earlier in tsarist times. It is reckoned that about 4.5m Kazakhs live abroad, in China, Mongolia, Russia, Turkey, Uzbekistan, Iran and Afghanistan. If a good number returned to the homeland, not only would they fill some of the empty spaces, but they would boost the Kazakh presence in the multi-ethnic country. At present barely half the population is Kazakh.

So far, there has not been a great rush to accept the president's invitation, now several years old. About 182,000 Kazakhs have returned. Many bureaucrats have not been welcoming, illegally charging for forms that the newcomers have to complete to obtain citizenship. That racket has now ended and the forms are distributed free. But it was a bad start to the homecoming.

Then there have been the simple problems of resettlement. Rakhim Aiypuly came to Nurly, a village 100km (63 miles) east of Almaty, the former capital, from western China with his family seven years ago. The Kazakhs in China preserved their culture in its purest form, he says, whereas those in Kazakhstan even forgot their own language during the Soviet decades. "We are the last real nomads among the Kazakhs worldwide," he says.

Mr Aiypuly's ancestors moved to China in the 1850s to escape tsarist oppression. In China's Xinjiang province, Kazakhs had their own schools, where to this day students learn to write Kazakh using Arabic characters. In Kazakhstan, Russia's cyrillic alphabet is standard. Mr Aiypuly decided to leave China when it became clear that the Kazakh schools were doomed and that the Chinese aimed to assimilate the Kazakh people. At least in Kazakhstan he and his children can keep their Kazakh identity, even though some things there have changed not entirely to his liking.

Dina Bulesheva and her husband also thought of their children when they moved from the Karakalpakstan region in Uzbekistan to Almaty four years ago. Hunger had driven their parents from Kazakhstan in the 1930s. The drying up of the Aral Sea, the ill health associated with the region and the preference given to Uzbeks for jobs were factors that made them decide to return to their homeland. Like Mr Aiypuly, Mrs Bulesheva has found her new community strange. Her Kazakh includes Uzbek words. She says that people in Almaty sometimes have difficulties understanding her.

But in other ways she finds that the people of Central Asia have similar ideas. Intermarriage and divorce are acceptable. Mr Aiypuly, though, says that among the Kazakhs in China divorce is rare. In Nurly their daughters are wary of marrying local lads, fearing that they may eventually be divorced. Kazakhs from China, says Mr Aiypuly, are more attentive to Islamic teaching. He is appalled that some Muslims eat pork.

But these are minor problems for the government's "come home" movement. By law, returning Kazakhs are supposed to be entitled to certain benefits, including housing and financial assistance. In practice, the government does not have enough money to honour its promises, so there is a waiting-list for benefits. Even so, between 1993 and 1999, the annual number of families gaining benefits went down from 10,000 to 500. Considering the outflow of 1.5m people from Kazakhstan over the past ten years—mostly Russians and Germans also returning to their homelands—the government has a long way to go if it is ever to see its empty steppes fill up.

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Philippines

Bomb justice

Jan 4th 2001 | MANILA
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THE closer the prosecution appears to be to proving that President Joseph Estrada is guilty of corruption, the more remote it seems that his impeachment trial will result in his being removed from office. Inside the Senate, which sits in judgment on Mr Estrada, the prosecution has produced some damaging evidence of murky financial dealings at the presidential palace. Outside, a wave of bombings, together with allegations of death threats and police bugging of central figures in the trial, has created an atmosphere of fear and distrust in which it is becoming hard to imagine either Mr Estrada or his opponents accepting an unfavourable verdict.

Before the trial adjourned for Christmas, the prosecution presented the most damaging evidence the Senate had heard. A surprise witness, Clarissa Ocampo, a bank official, gave evidence indicating that Mr Estrada had kept bank accounts under a false name. These contained suspiciously large sums of money, at least $10m. But the sober mood of the trial, and the idea that justice would prevail, took a battering on December 30th, when five bombs exploded in Manila within three hours, killing 22 people.

In the aftermath, all the usual suspects were blamed: Muslim rebels, communist guerrillas, mutinous military or police officers, and even the government itself. But whoever the bombers were, the effect was to create suspicion that Mr Estrada would use the attacks as an excuse to declare a state of emergency, or martial law, and so remain in power regardless of the outcome of his trial. Filipinos remember that Ferdinand Marcos pulled off a similar trick in 1972 to keep the presidency.

Along with the bomb attacks, there are worries that outsiders are trying to influence the trial. The lives of Mrs Ocampo and another prosecution witness are said to have been threatened. A Manila newspaper reported that a special police unit established by Mr Estrada himself was monitoring the telephone calls of prosecution lawyers and most of the senators (who are, in effect, the jurors). The Senate began hearings to determine whether this police unit had committed contempt of court.

Mr Estrada has pleaded not guilty to charges of bribery, graft and corruption, betrayal of public trust and culpable violation of the constitution. If the Senate finds him guilty of any one charge by a two-thirds majority, then the constitution says he should be removed from office. But the procedures followed by the Senate are to a great extent being made up as the trial goes along. Most crucially, it has still not been decided whether the two-thirds majority required for a conviction means two-thirds of the 24 Senate seats (two of which are vacant), or two-thirds of the 22 sitting senators, a distinction that could be critical. Among the senators themselves, supporters and opponents of the president have dropped all pretence of impartiality and have begun to demonstrate their biases openly.

These anomalies are potential grounds for either Mr Estrada or those opposed to him to question the outcome of the trial. The president has said he will abide by the senators' verdict, although he has also said that he is convinced he will be acquitted. Those who campaigned for him to be impeached have made no undertaking to accept the verdict. The danger is that the Senate trial, instead of settling the political crisis in the Philippines, will lead to even greater turmoil—for which the constitution does not seem to offer a legal and peaceful solution.

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Taiwan and China

Small change

Jan 4th 2001 | TAIPEI
From The Economist print edition

AS TAIWAN opened direct links between its islands of Kinmen and Matsu and the Chinese mainland cities of Xiamen and Fuzhou last week, the language was grandiose. Kinmen and Xiamen are only six kilometres (four miles) apart, “but the journey between them has taken 52 years,” said Kinmen’s county chief, Chen Shui-tsai. The significance of Taiwan’s new opening to China is likely, however, to be of symbolic rather than practical value, and will in practice stall normalisation of commercial relations across the strait for some time to come.

Taiwan had banned direct transport, communication and commerce with China since 1949. Despite bilateral trade of over $20 billion a year and more than 1m visits by Taiwanese tourists to China a year, all this traffic has had to go via a third “territory”, usually Hong Kong or Japan. Until last week, Kinmen residents who wanted to travel the six kilometres to Xiamen had to fly to Taipei, then to Hong Kong, and eventually to Xiamen, a journey of about 1,600km.

The lifting of the ban on direct links was China’s main priority in its prickly relations with Taiwan. The previous Taiwanese government, replaced in May last year, thought that direct links were a prize for which China would have to pay dearly. It refused to consider lifting the ban until China was prepared to renounce the use of force to reunify what it calls a “renegade province” with the motherland. Although direct links with the island of Taiwan itself remain forbidden, it might have been thought that at least this concession would have been greeted with acclaim by China. Not a bit of it.

Part of the problem is that Taiwan’s change of government put in power the Democratic Progressive Party, which favours a formal declaration of independence, although it is being prudently quiet about it. As a result, Chinese priorities have shifted; direct links now matter less than trying to force Taiwan to agree to the “one-China” policy of the Communist government. A change that could have been seen as an historic gesture of reconciliation has been condemned as inadequate by China’s officials and its media.

China will not turn away Taiwanese ships, but it refuses to negotiate with Taiwan’s authorities on any of the mechanisms needed if the change is to have more than symbolic value. These include an arrangement for currency exchange, without which trade is likely to remain little more than market peddling. In any event, only residents of Kinmen and Matsu are to be allowed to travel directly to China; only 600 Chinese tourists are to be allowed on the islands at any one time; and, perhaps more importantly, the small size of Kinmen and Matsu’s port facilities stop them from being a way-station for shipment of goods between China and Taiwan proper, which is at present illegal.

It is widely believed in both China and Taiwan that Taiwan’s entry into the World Trade Organisation (WTO), which is expected later this year, will force open direct links with China; hence perhaps China’s readiness not to press more vigorously for direct links now. Such confidence may be misplaced. Taiwan’s Mainland Affairs Council points out that, though its membership of the WTO will mean Taiwan must open its markets to China, the accession protocols do not say that commercial exchanges have to be direct.

Taiwan’s government is willing to open up to China, in ways that its predecessor was not, though cautiously. But if it is to take place, China has to show more willingness to talk to Taiwan on terms that the island can accept, which means moderating its stance on “one China”. That, however, is something that China’s leaders are loth to do lest they should be accused of being soft on Taiwan. Taiwan’s leaders

for their part cannot be seen to be too conciliatory to China or they will risk losing public support—which they do not want, with legislative elections due this year. This juxtaposition of conflicting interests is not something that Kinmen residents' new-found pleasure in shopping in Xiamen is likely to change.

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Yugoslavia—what's left of it—starts again

Jan 4th 2001 | BELGRADE AND PODGORICA
From The Economist print edition

Now that reformers have won Serbia's general election, brought forward by the fall of Slobodan Milosevic from the Yugoslav presidency, the hard work of rebuilding the Balkans can begin. But the region's stability is not yet assured

Reuters / AP

Djindjic gets more powerful while Kostunica ponders his future

IN HIS new year's address, Vojislav Kostunica, Yugoslavia's president, said that 2001 would be "the year of clearing up". After ten years of war and destruction, international embargoes and home-grown criminality, the mess is ghastly, especially in Serbia (the main component of federal Yugoslavia). Stability across the region, though far more likely now, is by no means assured. But at last its chief prerequisites—the removal of Mr Milosevic and a new, reform-minded majority in Serbia's parliament—are there.

It is fortunate, too, that the end of the Milosevic era came democratically and with little bloodshed. That was thanks in large part to Mr Kostunica's regard for constitutional law. On December 23rd, ten weeks after he had ousted Mr Milosevic from the Yugoslav presidency at the ballot box, the Democratic Opposition of Serbia (DOS), an 18-party coalition led by Zoran Djindjic (see article), cruised to victory in Serbia's general election, winning 176 of the 250 seats in parliament. Mr Milosevic's ex-communist Socialist Party of Serbia, which had long called all the shots, came second with 14% of the vote and 37 seats. Two extreme nationalist parties took the rest.

Many Serbs expect the DOS, which includes Mr Kostunica's own party as well as Mr Djindjic's, to fall apart quite soon. It came together only to ensure the demise of Mr Milosevic's lot. But it is likely to survive at least long enough to put Mr Djindjic at the head of a new government. Some lingering disputes over voting procedure in a small number of polling stations may delay proceedings. But he will probably be confirmed in office, by a vote of parliament, within weeks.

In any event, it will not be plain sailing. The balance of power in Belgrade, capital of both Serbia and Yugoslavia (which includes tiny, increasingly independence-minded Montenegro), is awkward. Both the federal and the Serbian governments are new. But neither wields power in Kosovo, which is governed by the United Nations though constitutionally still part of Serbia, or in Montenegro, which has carved out a wide measure of autonomy and threatens to break away from Yugoslavia altogether. In effect, Serbia has

two governments. The main job of the Yugoslav one is to deal with foreign affairs. Mr Djindjic's will be the one with the real clout.

If the distribution of power in Belgrade is confusing, the state of the economy could hardly be plainer. It is dreadful. Electricity supplies are patchy. Industry has come almost to a halt. Average salaries are down to DM100 ($48) a month; inflation is running at an annual 115%; and half the labour force is officially without work.

The prompt end of Serbia's isolation and the dropping of all remaining international embargoes have already given the economy a fillip. But things will have to get worse before they get better. As the country opens up, much of what remains of Serbia's decrepit industry will have to close down, throwing even more people out of work. Serbia has a fair number of good economists, but foreign investors will wait to see how serious Serbia's new government is about reform before opening their wallets.

Reuters

Serb optimists look forward to a new start

On one score, however, the new governments in Belgrade look likely to act fast. They, and Serbs at large, are keen to bring to book those who got their country into such a mess in the first place. In the hiatus between Mr Milosevic's fall and the (imminent) formation of a new Serbian government, a transitional one with ministers from the old regime has nervously held the ring. Once it has gone, a number of Mr Milosevic's closest colleagues, along with their old boss himself, can expect to be arrested. For a start, they are likely to face charges of corruption and electoral fraud. Only later will the question of war crimes and individual guilt be put.

Mr Milosevic's legacy of hatred will weigh heavily. Yugoslavia's territorial and ethnic troubles are far from over. In districts of southern Serbia along the border with Kosovo, ethnic-Albanian guerrillas have been skirmishing with Serb police. So far, the Serbian authorities have resisted the temptation to hit back hard. Mr Djindjic is likely to remain cautious.

Over Kosovo itself, both governments in Belgrade will want to be seen to be involved; after all, the province still belongs, in international law, to Yugoslavia, even though it is run by the UN. But, with so much else on their plates, few politicians in Belgrade are keen to grapple with issues such as Kosovo's final status.

The most pressing problem for the governments in Belgrade is what to do about Montenegro. The Yugoslav federation as it stands has been moribund since Montenegro's pro-western president, Milo Djukanovic, fell out with Mr Milosevic in 1997. Since then the craggy little republic of 650,000-odd people has been independent in all but name. Now Mr Djukanovic reckons the time has come to end what he regards as the pretence of federation. His parliament is preparing for a referendum, to be held by June at the latest. But since, at the end of last year, a small Montenegrin party that is against independence walked out of the ruling coalition, a general election may have to come first. Though rough-and-ready opinion polls suggest that Montenegrins who want independence have a slight majority, the country is bitterly split over the issue.

Mr Djukanovic is offering Serbia a deal. He wants both republics to be internationally recognised as independent. The old partners could then form an "alliance" or "union" that would co-ordinate defence, a common market, a single currency and foreign affairs. Mr Djindjic and most of his probable ministers want, less drastically, to reshape the federation, but, if Montenegro does vote for independence, they may see little point in proclaiming a union.

Moreover, Serbs chafe at the notion that Serbia, with 8m people, should form a union of equals with tiny Montenegro. Mr Djindjic says he would prefer a proper federation of the two republics but that "Serbia is in a position to feel equally relaxed about accepting either of the solutions."

He sees a further snag. If Montenegro were released, he would feel less confident about arguing that Serbia's sovereignty over Kosovo, whose population is three times Montenegro's and

ethnically far more distinct, should be restored.

Once the last pieces of Yugoslavia are either adjusted in a revamped (probably looser) federation or separated altogether, then the business of rescuing the Balkan economies can begin in earnest. It is an irony, after the bloody fragmentation of the past decade, that the former Yugoslav republics, whatever political arrangements are made between them, have little choice but to bring their economies closer together again if their region is to become truly stable.

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Czech media mount high horse

Jan 4th 2001 | PRAGUE
From The Economist print edition

JUST before Christmas, a council appointed by the Czech parliament picked an undistinguished journalist called Jiri Hodac to run the state television service. The choice so enraged most of the journalists already working there that they barricaded themselves inside the television headquarters in Prague, the Czech capital, and refused to come out. The entire country has been engrossed by the spectacle. Why the fuss?

The main reason is that Mr Hodac is deemed too friendly with Vaclav Klaus, an abrasive former prime minister who runs the right-wing opposition Civic Democratic Party. The television service's editorial independence would be compromised, say the self-immured journos. Most Czechs seem to agree. In a rare show of civic concern, at least 50,000 of them have been packing Wenceslas Square, in the city centre, calling for Mr Hodac's dismissal. President Vaclav Havel has weighed in behind the journalists.

Reuters

Good King Wenceslas looked up

The upshot is a bizarre stand-off. Mr Hodac and a team of loyalists have been putting out "official" programmes, which—for want of reporters—have been embarrassingly brief. The rebels, who have been lowering buckets out of their office windows to the crowd of thousands in the street below and hauling up alcoholic and other necessities of life, have been responding with their own version of the news, reaching about 10% of Czech households through cable and satellite. They say their independence stand harks back to the "velvet revolution" which overthrew communism in 1989. "Perhaps not," smiles Jan Urban, a wily star of those days who smuggled himself into the rebels' newsroom, out of nostalgia. "It's about the same values, but much more fun. We've had 11 years to get more civilised."

The dispute has rattled the government, which rests on a frail pact between the ruling left-of-centre Social Democrats, led by Milos Zeman as prime minister, and Mr Klaus's lot, who, though technically in opposition, have the parliamentary speaker's chair (with Mr Klaus in it) and help to set the agenda. The country's four main parties, including those of Messrs Zeman and Klaus, have tried to sort things out. The smaller parties back the rebels. Mr Zeman has fudged. Mr Klaus has been defiant as ever.

Most Czechs who value press freedom and the ideal of impartiality think Mr Hodac should go. Most newspapers praise the rebels. "The media today play the role of the political opposition," says Petr Holub, editor of the weekly *Respekt*.

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Russia

Chilled greens

Jan 4th 2001 | MOSCOW
From The Economist print edition

WHO says the Russians are passive? In recent months their green movement has managed to collect at least 2.5m signatures in support of a referendum on two big eco-questions facing the country. One is the government's plan to start accepting foreign nuclear waste for storage. The other is whether to restore the country's two main environmental protection agencies, abolished by President Vladimir Putin in May.

But the Central Election Committee ruled that nearly 700,000 of the signatures were incorrect. It said that people signing the petition had not filled in their passport numbers properly, or had made other technical errors. That left the greens well below the 2m signatures that the constitution requires for a referendum.

So Russia's parliament was free to go ahead and enact a money-making proposal to store up to 20,000 tonnes of foreigners' nuclear waste for 50 years; the revenues, supposedly worth tens of billions of dollars, are meant to pay for cleaning up the environment. Greens say that storage will be dangerous, and the money stolen or wasted.

Russia's environmentalists and human-rights campaigners, shaken by the way the government dismissed their petition, are increasingly alarmed. They say the treatment they receive ranges from contemptuous indifference to outright persecution.

The clearest example concerns Grigory Pasko, a journalist on a military newspaper in Vladivostok, in Russia's far east. He passed information about the navy's careless nuclear-waste habits to Japanese journalists; that, said the authorities, was spying. After 20 months in jail, he was found guilty on a minor charge and set free. But after a recent appeal hearing in Moscow a retrial on the original charge of treason was ordered.

According to Alexei Yablokov, a noted scientist who used to advise President Boris Yeltsin on ecology and now heads a pressure group, Russia's security services remember and resent the role that greens played in the collapse of the Soviet Union. Many green issues highlight the secretive, careless or incompetent habits, past and present, of the nuclear industries, the space agency, the armed forces and big business. All have powerful lobbies.

The greens' best hope is foreign pressure. Russia's neighbours worry about derelict nuclear submarines, decrepit power stations and the like. Many in the West also worry about Russia's greens themselves. Amnesty International took up Mr Pasko's case; he got 24,000 letters of support while in prison.

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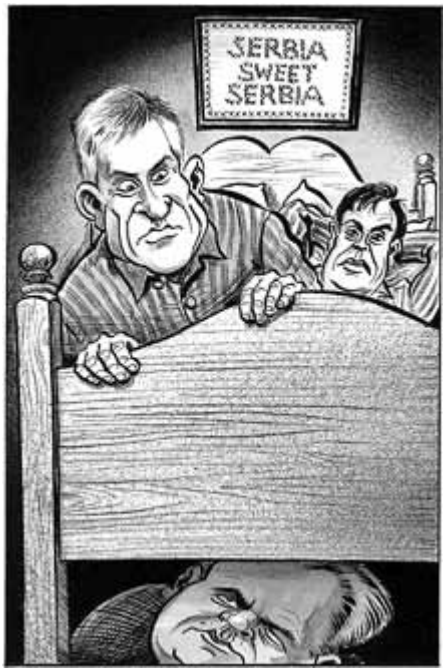
Charlemagne

Zoran Djindjic, Serbia's other big man

Jan 4th 2001
From The Economist print edition

IT IS hard to say who, these days, is Yugoslavia's biggest man. To acclamation, Vojislav Kostunica donned that mantle back in October, after he had thrashed Slobodan Milosevic in an election for the presidency and was triumphantly propelled into the job, after Mr Milosevic had refused to leave it, by an exultant wave of rebellion on the streets. He, if anyone, had cleansed the Balkans of its vilest leader. But since just before Christmas, after a general election in Serbia (the main bit of Yugoslavia's shrunken federation), a rival as well as a partner has emerged—in the shape of Zoran Djindjic, now set to become Serbia's new prime minister. While Mr Kostunica, with a daunting task of diplomacy ahead of him, remains the hopeful new face of Yugoslavia on the world stage, it is Mr Djindjic who must now buckle down to the more taxing job of remoulding his country at home. So the pair will have to cohabit. Will Mr Djindjic make his side of the arrangement work?

"My job is not to be popular," he says. That is just as well, since a recent opinion poll ranks him a dismal 11th in the popularity stakes among Serbia's politicians. Indeed, he has never been much loved. Yet the fact that his ramshackle coalition of 18 parties took 64% of the vote in last month's poll, far more than any other grouping, testifies to his managerial nous. Disliked he may be, but few Serbs deny that Mr Djindjic—smooth, sophisticated, handsome and chic—is also clever, dynamic and brave.



His detractors, however, both on the left and on the right, are legion too. What his friends call pragmatism, his foes deem opportunism. One of Serbia's leading columnists, by no means a fan of Mr Milosevic, calls Mr Djindjic "Little Slobo", implying that he has the same dictatorial tendencies.

Mr Djindjic, now 48, is certainly complex. Born in Bosnia, he was strictly brought up by his army-officer father. That, says Mr Djindjic, turned him against authority. Friends say he has a dual personality: an almost military flair for organisation and a barely suppressed anarchistic streak. The clash, they say, accounts for his fierce, angry energy.

Mr Djindjic's rebellious nature was in evidence early. While still at school in Belgrade, Yugoslavia's (and Serbia's) capital, he dared muster a petition against a law that made the country's untouchable post-war dictator, Marshal Tito, president for life. Later, Mr Djindjic fell in with Yugoslavia's New Left philosophers gathered under the banner of the journal *Praxis*, before joining fellow students from Croatia and Slovenia, the least backward republics in Yugoslavia, to set up a non-communist student front. That—or rather his desire to "destroy the constitutional order"—earned him a suspended sentence of a year in jail. Off Mr Djindjic then went to Germany, where he studied for a doctorate in philosophy under Jürgen Habermas. He stayed there for most of the 1980s, working in academia and, by the by, doing quite a bit of business.

When communism began to fizzle, he went home and helped found the Democratic Party, which he now leads. As Yugoslavia collapsed in bloodshed, he opposed the communist-turned-nationalist Mr Milosevic. But Mr Djindjic himself soon began to make Serb-nationalist noises. And after Bosnia's Serbs had turned against Mr Milosevic, Mr Djindjic controversially demonstrated his apparent loyalty to their cause by publicly roasting an ox with their bloodstained leader, Radovan Karadzic. Did Mr Djindjic truly believe that Mr Karadzic deserved his support, or was the gesture utterly cynical?

Either way, it seems to have helped him to the top of Serbia's political pole. For most of the past few years he has been fighting for supremacy not with Mr Milosevic but with other Serb opposition leaders, notably the mercurial Vuk Draskovic. With Mr Milosevic now cast down and Mr Draskovic sidelined, Mr Djindjic's approach appears, at any rate tactically, to have been vindicated.

Will such tactical acumen enable him to help Serbia? The obstacles are huge. Years of sanctions and decades of communism have stunted the economy, and corruption is rife. If foreigners are to invest, the judiciary must be cleaned up, and the criminals who ran the show under Mr Milosevic must be dealt with. Many well-wishers fear that Mr Djindjic, who is far from monkish himself, may not be inclined to take them on.

Moreover, sceptics in Belgrade think he has already been too cosy with Mr Milosevic's old crime-connected security-service types. Mr Djindjic's defenders say, with some reason, that he was obliged to get along with them, at least temporarily, to ensure a peaceful transition. It is certainly fanciful to suggest, as conspiratorially-minded Belgraders are already doing, that Mr Djindjic's rise is part of an elaborate plot to keep the venal old system intact.

Still, he will have to deal with the many former top Serbs, starting with Mr Milosevic, wanted for trial as war criminals in The Hague. That will be hard. Ever the pragmatist, Mr Djindjic is unlikely to offer sanctuary to Mr Karadzic. But the handling of Mr Milosevic will be even trickier. Mr Djindjic is already trailing the idea of a compromise whereby the Hague court might oversee a trial in Serbia. Whatever deal is struck, Mr Djindjic has made it plain that Mr Milosevic's days as a free man are numbered. On that, he has little motive for dissembling.

Then there is the matter of Serbia's own security, and its place within Yugoslavia. That is where Mr Djindjic's remit overlaps with President Kostunica's. Montenegro, Serbia's tiny federal partner, may break away, or at least loosen its ties with Serbia still more. If the federation actually fell apart, Mr Kostunica's job would, by definition, disappear—though it is possible he would then be elected president of Serbia alone. If not, Mr Djindjic would by default become the Serbs' top dog, in which case it would be for him to deal with secessionist Kosovo—a task that no Serb, for the time being, is keen to do, however passionately he may feel about it.

Mr Djindjic has to be tough and shrewd. He also needs conciliatory skills—and integrity. He has the first two qualities in abundance. Whether he has the other two is worryingly less certain.

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Germany

More babies?

Jan 4th 2001 | BERLIN
From The Economist print edition

NOT for the first time, Edmund Stoiber, premier of Germany's biggest and most conservative state, Bavaria, has stomped into territory where more mealy-mouthed politicians have feared to tread. Germans, he says, should be paid to have more babies. The implication of his plan, mooted over the new year, is controversial. It touches on growing fears among ordinary Germans that immigration is too high. That, in turn, touches on another increasingly emotive topic—the definition of what it is to be German, and whether (and how) immigrants should be assimilated into the country's *Leitkultur*, or dominant culture.

For many Germans, especially on the left, the whole tangled issue—demography, immigration, national identity—conjures up the shameful old ghosts of racial strife. But Mr Stoiber, who heads Bavaria's Christian Social Union, plainly reckons that being controversial could win him popularity. Though he fiercely denies harbouring such thoughts, most German commentators think Mr Stoiber would love to be the combined German right's candidate for chancellor at the general election due next year.

His starting-point is that Germany's indigenous population is shrinking. Demographic decline, he argues, is a "ticking timebomb under our social welfare system and entire economy". A respectable economic institute in Berlin, DIW, says that Germany's low fertility rate means that its population, on present trends, could slump from 82m today to 66m in the next half-century. Worse, nearly half the population may by then be over 60. At the same time, says DIW, Germany's labour force may shrink from 40m to 27m. To keep it stable, the country would need 260,000 immigrants a year for the next 20 years, rising to 600,000 a year for three decades after that. Allowing for emigration, this would mean taking in more than 1m foreigners a year after 2020, says the institute. Could Germany cope with that number?

No, says Mr Stoiber. With non-Germans already accounting for 9% of its population and "ethnic Germans" from the former Soviet Union (most of whom speak no German when they arrive) boosting that figure to 13%, social harmony is already under threat. Moreover, as the European Union widens to the east, many Germans fear a further influx of Poles, Czechs and others, who will then—say the doomsters—pinch local jobs, push down wage rates, and even increase crime. A threat to "national identity" is being more frequently mooted. Xenophobia and crime committed by far-right groups against foreigners are rising.

Under Mr Stoiber's scheme, German parents would get DM1,000 ($484) a month, more than triple the current rate, for each child in the first three years of its life. To keep the population steady, German women, demographers say, need to produce an average of 2.2 babies each. The current figure is 1.3.

Mr Stoiber has been in the forefront of those calling for tighter restrictions on asylum-seekers and ordinary immigrants. Since 1955, 9m newcomers have settled in Germany. Though Germany closed its doors to foreign "guest workers" after the shock of the first big rise in the oil price in 1973, every year it still accepts some 100,000 refugees, 100,000 ethnic Germans and 60,000 family members of foreigners who have already settled.

In future, says Mr Stoiber, Germany must differentiate between "those whom we need and those who need us". Some kinds of immigrant, he admits, can benefit the country. He was quick to endorse Mr Schröder's "green card" scheme, floated last year, to let in some 20,000 foreign computer specialists on five-year contracts.

After presenting that scheme as a single event, Mr Schröder changed his tune, recently unveiling plans to extend it to foreign students wanting to stay on to work in Germany after graduating. Now he is lending an ear to businessmen wanting the rules to be further relaxed to let in foreign specialists in other areas of dearth.

If Mr Stoiber, among mainstream politicians, seems readiest to break the taboo about discussing the consequences of large-scale immigration, Mr Schröder has been quite bold too. Immigration, he says, is an “economic must”. He has promised legislation on the matter once a committee of inquiry he set up reports this summer.

The right, as usual these days, is in a quandary. Angela Merkel, leader of the Christian Democrats, to whom Mr Stoiber’s Bavarian lot is allied, is wary of being tarred with the brush of ethno-centric nationalism. Mr Stoiber seems ready to take that risk. So far, the lady has yet to comment on his scheme for making more German babies.

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Six delightfully dull Swedish months

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From The Economist print edition

STEADY, efficient, unadventurous. Goran Persson, Sweden's stolid Social Democratic prime minister, does not actually use such words to describe how he wants his country to portray itself during its six-month presidency of the European Union, which started on January 1st. But it is what the rest of the EU expects; and if it sounds a bit dull, Sweden has often accepted its image with good grace. Moreover, after the bad blood that characterised the end of France's period at the EU's helm, the club's 15 members may rather welcome a spell of cool Nordic modesty.

The Swedes say their presidency will concentrate on "three Es": enlargement, environment and employment. Mr Persson is keen for the EU to welcome new members, especially from Central Europe and the Baltic. In environmental matters, he sees Sweden as a European leader, and wants to persuade other EU countries to match its own high standards. And his Social Democrats stress that the EU's commitment to the market and economic growth should go together with the aim of full EU-wide employment.

Some critics in Sweden fear that this worthy agenda for the country's first presidency since it joined the EU five years ago is long on generalities but short on detail. Even on green issues, the government has made only one solid proposal—for tougher curbs on hazardous chemicals. It also wants to extend to the rest of the Union its ban on television advertising aimed at children (see article).

The EU's promised enlargement, however, is where Sweden might make a difference. Mr Persson wants the readiest countries to be let in fast (which would rattle the Poles), but is reluctant to name dates. A premature anouncement might, he thinks, weaken candidates' determination to complete necessary reforms. Even so, some top academics have already scolded him for being unrealistically hopeful about welcoming new countries into the EU soon.

Sweden's rather unambitious presidential plans are in keeping with the Swedes' wariness of the EU in general. Along with the British, they are the least enthusiastic members of the club. An opinion poll last month suggested that 43% of Swedes oppose EU membership, while only 37% favour it. After the Danes' refusal last September to adopt Europe's single currency, the Swedes are unlikely to seek to join it soon, though Mr Persson has ended his years of hesitation by saying he is in favour of doing so—in principle.

"The most important thing for me is that our presidency is regarded as professional and that we are seen as a competent player in the EU," says Mr Persson. That is as much as most Swedes hope for. No risky French glamour and excitement for them.

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France

It's perky for now

Jan 4th 2001 | PARIS
From The Economist print edition

With the economy growing nicely, France's government looks good. But a slowdown might hurt the prime minister, Lionel Jospin, more than the president, Jacques Chirac, both of whom are set to compete for the presidency

THIS coming year, declared France's President Jacques Chirac in a televised address to the nation on December 31st, should be a "useful" one. A banal word, repeated several times, for a president who can be as eloquent as the next politician. Yet the explanation is simple: the conservative Mr Chirac is mischievously warning the Socialist-led government of Lionel Jospin not to miss the opportunity given by France's still-blossoming economy to carry out "the reforms needed to prepare for the future, reforms which many of our neighbours have already made."

It is a clever criticism. In the spring of next year, Mr Chirac and Mr Jospin, "cohabiting" in power ever since the right lost the parliamentary election of 1997, are destined to confront each other in a presidential election. So, in the meantime, why not prick the prime minister's pride a little, first with the observation that the current prosperity stems from the work of ordinary citizens, from the policies of "successive" governments and from world economic growth, and then with the implicit accusation that Mr Jospin is a wimp?

Mr Jospin, of course, would claim the pride is justified. In a newspaper article timed (impolitely, huff the president's men) to pre-empt Mr Chirac's appearance on the television screen, the prime minister argued that the French are now happy and relaxed, and can think realistically of a return to full employment—thanks, he modestly noted, to a government that had made the struggle against unemployment its number-one priority, using the weapons of a shorter working week, youth-employment schemes and a growth-oriented economic policy.

Maybe so. The latest unemployment figure is 9.2% of the workforce, still a touch higher than the EU's average, but the lowest since 1990. Since Mr Jospin's government came to power, the economy has grown on average around 3% a year; new jobs have been created at a rate of 400,000 a year (ten times faster than in the period 1974-96); and almost a third of the unemployed have found work. In other words, the Jospin goal of full employment by 2010 is no longer a pipedream: assuming labour-force participation remains unchanged, only some 160,000 new jobs a year would be needed to reduce unemployment to 5%.

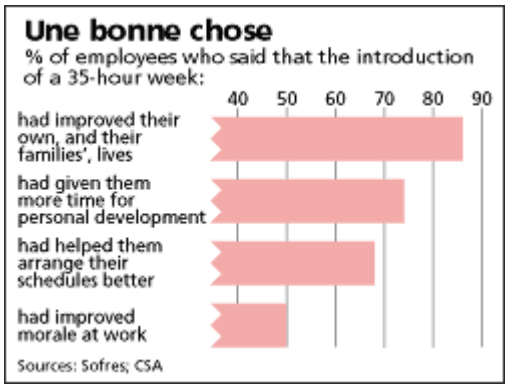
But Mr Chirac has chosen his targets well: urgent reforms are required, he argues, in education, pensions, taxation, public spending and the role of the state—all of them areas where Mr Jospin, at the head of a coalition that ranges from the Communists to the Greens, has to tread carefully.

Last year, for example, the prime minister had to jettison a finance minister and an education minister when they tried to streamline their overstaffed union-dominated empires. With important local elections due in March, brave talk of reforms in the schools, hospitals and tax offices has faded. Indeed, this year another 11,000 jobs will be added to a public-sector payroll which, with 5.4m employees in a working population of 26.5m, is already one of the biggest in the world. Although the finance minister, Laurent Fabius, believes in the virtues of cutting both taxes and government spending, maximum tax rates on personal income are still over 60% and it will not be until 2004 (assuming, in the meantime, 3% annual economic growth) that public spending falls below 50% of GDP. In other words, Mr Chirac is surely right to point out the government's weaknesses.

But are the voters listening? One of the underlying problems for the government is the implementation of the 35-hour week, a reduction from 39 hours—but with no loss of pay. Not surprisingly, it has proved the government's most popular policy. The law already applies to large firms and will apply to small ones

from January next year, with the bosses being lured by tax concessions and promises of more flexible work practices. Unhappily, the idea of a carbon tax to help finance these concessions has just been ruled illegal by France's Constitutional Council, leaving the government with a $500m shortfall in its 2001 budget.

In short, the economy will have to keep on growing quite fast to smooth over the problems. At present, that looks plausible enough, but both Mr Chirac and Mr Jospin are no doubt looking anxiously across the Atlantic: after all, if America sneezes, Europe tends to snivel, and the symptoms will surely be worse for Mr Jospin.



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Mean streets

Jan 4th 2001 | BIRMINGHAM
From The Economist print edition

In dealing with prostitution, the government and the councils that run Britain's cities are pulling in different directions

BALSALL HEATH was once the centre of Birmingham's vice trade. Legions of prostitutes plied their trade on corners, and advertised their services with gaudy window displays in residential streets. Then in 1994 a group of residents formed Balsall Heath Street Watch, and began patrolling the neighbourhood to drive the vice away, with more dedication than the police can afford. The Street Watch members still convene in their portacabin, before venturing out on foot and in their cars. These days, though, there is virtually no prostitution in Balsall Heath, and the streets are deserted at night.

Balsall Heath's residents are proud of the results, and their methods have been emulated elsewhere. But they have been accused of vigilantism and intimidation—allegations which Raja Amin, the group's founder, does not entirely deny. And other neighbourhoods complain that this activism has merely moved prostitution around. Some of the street-walkers have gone indoors, but many have relocated up the road to the adjacent, middle-class neighbourhoods of Edgbaston and Ladywood. ("So be it," says Mr Amin.)

The residents of these newly inundated areas, and the local police, have worked imaginatively to deter prostitutes and their clients. Sergeant Richard Martin and his colleagues send around 20 warning letters a month to owners of cars spotted misbehaving in the area by residents' patrols; only one has re-appeared. The names of kerb-crawlers actually taken to court have been published in the local press. Birmingham police were among the first in the country to use the government's new Anti-Social Behaviour Orders to stop prostitutes soliciting. One woman who violated an order has recently been sent to prison. Sergeant Martin would like to apply the orders to clients as well, so that they too can be imprisoned, rather than merely fined.

These tactics seem to be working, and the police are trying hard to do more than shuffle the problem along. But getting tough may still be only a short-term answer. Criminal convictions make the women even less employable, and fining them is usually an incentive for them to get back on the streets. Along with many magistrates and probation workers, Carl Rice, the Labour councillor for Ladywood, thinks that "putting prostitutes in prison is not the answer".

Birmingham city council, prompted by enraged residents, is looking at a wider range of options. Last year it set up a policy panel, involving the police, the health authority and others, to look into street-walking. Mr Rice, who chairs the panel, would like to confine the trade to non-residential areas, where prostitutes could operate without fear of prosecution. But for that to happen in Birmingham, the slippery laws on prostitution would have to be revised.

Recent Home Office research argues that tolerating prostitution in massage parlours, as already happens in a few British cities, such as Sheffield, might help to keep it off the streets. Fewer pimps, and fewer children, tend to be involved. But Mr Rice and his colleagues are more interested in the "zones of tolerance" which existed in the Netherlands even before the final legalisation of prostitution there last year, and operate (unofficially) in some British cities, such as Edinburgh, where police turn a relatively blind eye to soliciting in defined areas.

Doing it the Dutch way

Some prostitutes worry that these zones can become places where anything goes. But evidence from the Netherlands suggests that where they are properly regulated, the nastiness associated with prostitution can be reduced. This sort of idea appeals to those who think prostitution is a legitimate commercial transaction, but is anathema to those who consider it downright immoral. Yet since West Midlands police (unlike some other forces) oppose any sort of selective law enforcement, the debate is at the moment

only theoretical.

Birmingham may have particular enticements for prostitutes: some may have been attracted by the city's success as a conference venue. But although some residents believe their neighbourhoods have been targeted by loose women from around the country, there is nothing unique about the city's problems. Most sizeable towns attract prostitutes, and many other municipal authorities would be pleased if Birmingham succeeded in prompting the government to review the law. Home Office advisers have recommended that it do so.

But the government does not seem to be in a liberalising frame of mind. Its plans for new legislation, announced in the Queen's Speech in December, included making kerb-crawling an arrestable offence. Ministers have recently addressed the issues of child prostitution and trafficking. But even if they wanted to, they would be unlikely to contemplate anything so inflammatory as tolerance zones, or other legalising steps, this close to a general election.

Demand for prostitution is pretty constant. It follows that politicians who really want to tackle it ought to work on supply—the steady stream of women, often young and homeless, who get and stay on the game. But support for agencies working with prostitutes is limited among the voters of Edgbaston and Ladywood. Some claim that a health outreach project, which distributes condoms to street-workers, draws them into the area. Residents accuse the council and the health service of acting as pimps. As for the prostitutes: "They're not people any more," says a resident.

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Libel

Gorgeous George is gone

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THE death of George Carman this week coincides with the end of an extraordinary period in British courts. Thanks to a quirk in the law—in Britain, unlike the United States, there is no public-interest defence for defamation—and escalating awards from juries, the British public was treated to a decade of fantastic legal theatre.

PA

An old owl with sharp talons

George Carman, popularly known as Gorgeous George, dominated the scene of many of his triumphs, Court 14 at the Old Bailey, although he was only 5'3" tall. One of the few British lawyers to become a household name, his skills as a cross-examiner were highly prized. At his peak he was earning well in excess of £1m ($1.5m) a year; but those who bought his services thought him excellent value.

The court performances were meticulously prepared and rehearsed. Mr Carman had the knack of addressing juries in language they could understand and never forget. He described David Mellor, a former cabinet minister, as having "behaved like an ostrich and put his head in the sand, thereby exposing his thinking parts". He described another Conservative MP, Neil Hamilton, as "a greedy and unscrupulous politician who was on the make and on the take".

Mr Carman's principal technique was to explode a bombshell when his opponents least expected it. When Jonathan Aitken, a former government minister, sued the *Guardian*, airline tickets and credit card statements were suddenly produced mid-way through the trial proving that the former cabinet minister had lied. Mr Aitken was subsequently convicted and jailed for perjury.

When Gillian Taylforth, an actress, sued the *Sun*, he produced a home video in which she simulated oral sex with a large sausage. When Jani Allan, a South African journalist, sued Channel 4, he produced keyhole evidence of the white posterior of the far-right politician Eugene Terre'Blanche bobbing up and down between her legs. She told him: "Whatever the award for libel, being cross-examined by you would not make it enough money." One of Mr Carman's colleagues, Anthony Scrivener, said that watching him cross-examine was "like watching a wise old owl devouring a rodent."

Just occasionally these tactics of roughing up claimants misfired. In an action brought by the former Conservative health minister, Edwina Currie, against the *Observer*, Mr Carman gave her such a hard time that the jury awarded her £75,000—far more than had been expected.

It is perhaps fitting that Mr Carman should take his leave at a time when the attractions of suing for libel have diminished. The risks of an unsuccessful suit have been highlighted by the disasters befalling politicians such as Mr Aitken and Mr Hamilton. At the same time the rewards have declined since the Court of Appeal's decision in 1995 to cut damages awarded to the singer, Elton John, from £350,000 to £75,000. The 1996 Defamation Act has provided new defences including "innocent dissemination", and cut the period in which actions can be brought from three years to one. The curtains have been drawn on the great days of libel, and of its most formidable practitioner.

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Cents and sensibility

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From The Economist print edition

"MAKING money is a dirty game," says the Institute of Economic Affairs, summing up the attitude of British novelists towards business. The IEA, a free-market think-tank, has just published a collection of essays ("The Representation of Business in English Literature") by five academics chronicling the hostility of the country's men and women of letters to the sordid business of making money. The implication is that Britain's economic performance is retarded by an anti-industrial culture.

Rather than blaming recalcitrant workers and incompetent managers for Britain's economic worries, then, we can put George Orwell and Martin Amis in the dock instead. From Dickens's Scrooge to Amis's John Self in his 1980s novel "Money", novelists have conjured up a rogue's gallery of mean, greedy, amoral money-men that has alienated their impressionable readers from the noble pursuit of capitalism.

The argument has been well made before, most famously in 1981 by Martin Wiener, an American academic, in his "English Culture and the Decline of the Industrial Spirit". Lady Thatcher was a devotee of Mr Wiener's, and she led a crusade to revive the "entrepreneurial culture" which the liberal elite had allegedly trampled underfoot. The present chancellor of the exchequer, Gordon Brown, sounds as though he agrees with her. At a recent speech to the Confederation of British Industry, he declared that it should be the duty of every teacher in the country to "communicate the virtues of business and enterprise".

Certainly, most novelists are hostile to capitalism, but this refrain risks scapegoating writers for failings for which they are not to blame. Britain's culture is no more anti-business than that of other countries. The Romantic Movement, which started as a reaction against the industrial revolution of the 18th century, was born and flourished in Germany, but has not stopped the Germans from being Europe's most successful entrepreneurs and industrialists.

Even the Americans are guilty of blackening business's name. SMERSH and SPECTRE went out with the cold war. James Bond now takes on international media magnates rather than Rosa Kleb. Hit films such as "Erin Brockovich" have pitched downtrodden, moral heroes against the evil of faceless corporatism. Yet none of this seems to have dented America's lust for free enterprise.

The irony is that the novel flourished as an art form only after, and as a result of, the creation of the new commercial classes of Victorian England, just as the modern Hollywood film can exist only in an era of mass consumerism. Perhaps the moral is that capitalist societies consume literature and film to let off steam rather than to change the world.

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Cash for Labour

Jan 4th 2001
From The Economist print edition

TONY BLAIR is forever moaning about the “cynics” who do not care about the great and worthwhile things New Labour has done in government, but the flame burns undimmed in the breasts of some very rich men, three of whom are digging into their pockets to make a campaign contribution of £2m ($3m) each. They are Lord (Paul) Hamlyn and Christopher Ondaatje, two publishers, and Lord (David) Sainsbury, a former chairman of the grocery chain who serves now as a science minister in the Lords.

By British standards, a political party capable of raising £6m from three benefactors is in clover. Mindful of the reputation for sleaze which contributed to the downfall of the Conservatives in 1997, Labour has introduced new, much tougher laws on party funding. The Political Parties, Elections and Referendums Act, which comes into force on February 16th, sets an annual limit of £20m on campaign spending by any party. But the home secretary has the power to reduce this limit (£15m is being bruited about) if, as expected, the government calls a general election this year.

Labour’s joy at the size of these donations was diminished by the manner of their disclosure. Another provision of the new law will require parties to announce the size of donations exceeding £5,000, as well as the name of the donor. But this provision, too, does not come into force until February 16th. And the donations from Mr Ondaatje and Lord Sainsbury came to *The Economist*’s attention only after the party had been accused of trying to slip in the one from Lord Hamlyn before the deadline. Although the existence of a mystery £2m donor was leaked in the newspapers last weekend, the party refused to name him on the grounds that he had requested anonymity. Lord Hamlyn eventually broke cover himself, giving ill health as the explanation for his reticence.

It seems that the donations from Lord Sainsbury and Mr Ondaatje, whose health is good, were also originally intended to remain anonymous. When *The Economist* first heard about them on January 4th, the Labour party claimed that it knew nothing about them, and admitted to them only later that day. But Mr Ondaatje says he was approached by Labour in November and told about the intentions of Lords Sainsbury and Hamlyn to donate £2m apiece. In December he agreed that he would chip in the same amount. Not until Monday this week did the party ask his permission to make the donation public.

If the Labour Party has got itself into a needless tangle over its funding this week, that is because the prime minister has been exquisitely sensitive on the issue of donations ever since the party received a large one (subsequently returned) from Bernie Ecclestone, the head of Formula One, which was suspected of winning motor racing exemption from a ban on tobacco advertising. The Ecclestone mess is one reason for the government’s decision to make the law more transparent. But not until February 16th.

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Scottish politics

McLeish makes a difference

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From The Economist print edition

The Scottish Executive wants to make Scotland still more different from the rest of Britain. In doing so, it may expose the limits of devolution, and so play into the hands of the Scottish National Party

PA

HENRY McLEISH, first minister of the Scottish Executive, which has run Scotland's affairs since devolution, hopes that this January will be a big month for his administration. He wants to make a splash with two announcements that show just how different his Labour/Liberal Democrat government is from Tony Blair's government, thus neatly spiking the guns of his main political opponents, the Scottish National Party (SNP). The first is a whopping increase in teachers' pay. Scottish teachers' pay has lagged behind that in England, but this rise should make them richer than their southern counterparts. The second, Mr McLeish hopes, is that the Scottish Executive will go further than Mr Blair in paying for care for old people.

Mr McLeish's predecessor, Donald Dewar, was wary of diverging too far from what Tony Blair's government was doing. That way, neither government could be embarrassed by comparison with the other. But it also left the Scottish Executive open to attack from the SNP that it was meekly toeing a line laid down in London.

Mr McLeish, by contrast, is determined to be different. "What is the point of having devolution if you cannot do things differently?" he asks. Scotland, with its distinctive education system and a legal system quite separate from the rest of Britain, has always been more distinct from England than most people south of the border suppose.

Now it is getting more different still. University students in Scotland, for example, no longer pay tuition fees when they start their courses, as students in the rest of Britain have to do: they pay the fees back once they leave university and start earning. Pensioners and social-housing tenants in Scotland who do not have central heating in their homes will get it installed free by the government. The controversial section 28 legislation, which forbids local councils from "promoting" homosexuality, has been abolished north of the border but remains intact in England and Wales. And Jim Wallace, the Liberal Democrat justice minister, will press on with laws to allow for quick divorces where the husband and wife agree that no one is to blame for the marriage breakdown. Lord Irvine, the Lord Chancellor, has baulked at introducing a similar change in the law south of the border.

In recent parliamentary by-elections in Glasgow Anniesland and Falkirk East, the Labour Party held off strong SNP challenges, which seems to suggest that Scottish voters approve. And in recent opinion polls, Labour's lead over all the other parties is almost as good as it was in the 1997 general election.

There is, however, a potential snag implicit in the growing difference between Scotland and the rest of Britain. While some changes, such as the new divorce law, do not cost much, others are expensive. Abolishing students' tuition fees has cost £50m this year, and the free-central-heating pledge may cost about £20m a year.

So far, these costs have been absorbed fairly painlessly in the Scottish Executive's £18.3 billion budget, but the bigger changes ahead are going to test the limits of devolution. The bill for the teachers' pay deal, to be announced on January 8th, and involving increases of 20-25% over three years, will be about £350m by 2003-04. And it is likely to lead to demands from other public-sector workers for more pay.

There may be little spare cash left over from the teachers' bill to pay for Mr McLeish's wish to cover the

personal care needs of old people in residential care. The British government reckons this handout, recommended by the recent Sutherland committee report, is a poor use of taxpayers' cash since it will benefit a lot of well-off pensioners. The bill for it will also rise steeply from the £110m a year the Scottish Executive thinks it would cost now as the pensioner population grows.

How will you find the money, Henry?

Mr McLeish's problem is that, in the short term, he has to manoeuvre within a budget fixed by the Treasury. He can afford small measures of generosity because he inherits historically high levels of public spending; the average Scot has about 22% more spent on him than does the average Englishman (see table). This enables, for example, the health service in Scotland to employ 52 consultants per 100,000 Scots, compared with 41 consultants per 100,000 people south of the border.

When Tony Blair decides, say, to spend more on health services in England, the Scottish Executive gets a percentage of that increase based on the Scottish share of Britain's population. But if Mr McLeish decides to do something which Mr Blair is not doing, he has to find the finance for it himself. This will get progressively harder to do over the next few years. While Scotland will get the same public-spending cash increase per head that England gets, it will translate into a smaller percentage increase because the additional amount is being added to a larger basic sum.

The south-north divide

Public spending per person, 1998-99, £

	England	Scotland
Education	636	814
Health and social services	963	1,197
Roads and transport	140	187
Housing	56	95
Social security	1,634	1,791
Other	681	941
Total	4,110	5,025

Source: HM Treasury

David Bell, an economics professor at Stirling University, calculates that if English public spending grows at a rate of 5.25% a year, Scotland's spending advantage will dwindle to 13% in 12 years. From the point of view of the government in London, this looks fine. It means that English public spending will gradually catch up with Scottish levels. For Scotland's Labour Party it does not look so good, because the SNP portrays it as reducing Scottish spending to English levels.

There is already pressure for a reform of the way that public spending is allocated between the British regions. But until the system is changed, as it is bound to be, Mr McLeish has two ways round this problem if he wants to continue being a big spender. The first is to decide which public services deserve most funding and concentrate on them while reducing spending on others. To some extent this is already happening. The Scottish Executive is urging local councils to transfer their housing stock to tenant-controlled housing associations, which can raise private finance for improvements and building new houses.

Mr McLeish's other option is riskier—using the Scottish Executive's power to levy up to an additional 3p on basic-rate income tax. Each extra penny would raise about £200m. Labour has promised not to use the power until after the next Scottish elections in 2003. But if Mr McLeish is serious about his agenda, it is hard to see how he can avoid raising tax eventually. Then he will find out just how different the Scots want to be.

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About sponsorship

Bagehot

No praise, please, I'm Labour

Jan 4th 2001
From The Economist print edition

SOMETIMES you blow an innocent kiss and get slapped for your trouble. This has just happened to *The Economist*. In our issue of December 16th we wrote a brief article in praise of Clare Short, the secretary of state for international development. We described her recent White Paper as "full of good sense, and some courageous policy" on global poverty. We liked the fact that she had made a strong case for seeing global capitalism as the solution to global poverty rather than the cause of it. That is very much our own view. And we thought it striking that this strong argument should have been put so forthrightly by a Labour minister who was once "a left-wing firebrand". We did not expect to be thanked for this small act of editorial generosity, but nor did we expect to be slapped down for it.

Well, we have been. The Christmas post brought the following letter from Ms Short:

> Your snide comments on my political views and the Globalisation White Paper are misinformed. The message of the White Paper is that countries need effective states and efficient markets to maximise the conditions for poverty reduction. It also calls for a stronger focus in all the multinational institutions on systemic poverty reductions. The White Paper rejects the market fundamentalism of the 1980s for which *The Economist* was often an apologist. These are my longstanding political values.

Ouch. When your overtures are misconstrued, the prudent course is sometimes to apologise and withdraw. We are sorry that Ms Short found our comments snide. They were not so intended. But it would be a pity to withdraw from the subject altogether. For the secretary of state's indignation at our praise for it is almost as interesting as the White Paper itself. Moreover, it raises an interesting question about the cast of mind of the government as a whole as it seeks re-election.

Our article touched a raw nerve. But which one was it? Was it being called a former left-wing firebrand that upset Ms Short? Or was it being praised for having changed her mind? To judge by the fidelity she claims to her "longstanding political values", it is the latter. This is after all a politician who grew up in the Tribune Group on the left of the Labour Party. But the *Tribune* newspaper gave her White Paper a cooler reception than we did. In point of fact, it accused her of "running up the white flag of surrender". In the *Tribune* view of the world, globalisation is a matter of companies exploiting the cheapest labour in the poorest and least-regulated economies, in "a universal process of dumbing down". Our view, like Ms Short's, is that if poor countries reject the investment and know-how that multinational firms can provide, they risk trapping themselves in poverty. She agrees with us and we with her. But when *Tribune* attacks you for selling out and *The Economist* praises you for changing your mind, the commendation of the latter is in danger of validating the condemnation of the former. Ms Short seems keener on staying in with her old crowd than making friends with a new one.

That is a pity. It is easy enough to understand why Labour becomes prickly when it is accused of changing its mind. The strategy in 1997 that required the party to make itself "New" entailed putting out a mixed message. On the one hand, a message of change was needed in order to win new voters. On the other, a message of continuity was needed to retain the loyalty of old ones. The two messages are in perpetual tension, and the balance between them requires tuning in accordance with electoral circumstances. In the coming election, Labour's strategists are beginning to think it is continuity that needs most emphasis. The parlous condition of the Conservatives suggests that Labour can now relax a little about the danger of a mass defection by the new voters it attracted in 1997. A bigger danger is that

of traditional voters staying home—not only because they are complacent about the prospect of a Labour victory but also because they are disappointed about the kind of party Labour has become.

Tony Blair has tried to resolve the tension between Old and New Labour by arguing via his “Third Way” that a change of mind is not the same thing as a change of heart. Labour’s policies may change, the prime minister says, but the values that underpin them remain eternal. It is an answer that may satisfy some. But it is no answer simply to deny, in the manner of Ms Short, that you have changed a thing. She knows better than most how preposterous such a claim is.

Ms Short became the MP for Ladywood, Birmingham, in the election of 1983, which the Labour Party fought and lost under a manifesto so far to the left of the electorate that one of its own MPs called it “the longest suicide note in history”. This document promised among other things (such as withdrawal from the Common Market) that a Labour government would re-nationalise the companies which Margaret Thatcher had moved to the private sector and introduce massive central planning. It said that a Labour government would negotiate “development plans” with big firms so as to influence their purchasing policies and prevent “excessive” import penetration. Within the framework of an “orderly” expansion of trade, a Labour government would give preference to imports from the poorest countries, “except where this will create acute problems for particular industries in this country.” And so on.

It is not good enough for Ms Short to argue now that she has always believed in “effective states and efficient markets”. So has *The Economist*. We have never been “market fundamentalists”. Our difference with Labour has been about the extent to which states ought to control, interfere with and second-guess markets. Whereas the Labour Party of 20 years ago argued for massive interference, New Labour has come round to our view that markets often know better than governments. We will continue to praise Ms Short for implementing this policy in her role as international-development secretary. We unreservedly withdraw any praise we erroneously gave her for doing so without embarrassment.

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About sponsorship

Water industry

Pipe dreams

Jan 4th 2001
From The Economist print edition

The companies that run the water industry are trying to restructure themselves in a way that threatens to replicate the problems of the railways

WHEN the water industry was privatised in 1989, the model was quite different from that later adopted for rail. Water was sliced up into ten integrated regional monopolies, responsible for treatment, pumping and maintenance as well as owning the pipes and reservoirs. In the rail business, by contrast, infrastructure was separated from operations, and operations were split into many different pieces.

For consumers, water privatisation has, by and large, worked. In the early 1990s, the companies replaced old pipes and plants, shaking off Britain's "dirty man of Europe" tag. More recently, they have cut their costs while improving customer service and moving into new businesses, such as waste management. Today the industry is one of Europe's most efficient. In a test last year, tasters preferred London tap water to bottled mineral waters. Wastage has been curbed: leakage is down by 30% since the mid-1990s.

The trouble is, water firms insist the industry's structure has become unworkable. They blame a windfall tax in 1997, designed to claw back big profits made in the early post-privatisation years, and a tough review of prices by the regulator late last year, which imposed caps on the returns that companies were allowed to make on their regulated assets. Companies complained that the review left them unable to attract funds, and so less able to invest in infrastructure. Having been too lenient in the early 1990s, it seemed, the regulator was overcompensating.

Normally, companies respond to such a squeeze by merging with each other and stripping out costs. But the government is against mergers in water, although it has allowed them in the electricity business. Water is the only one of Britain's privatised utilities in which mergers between companies operating in the same market are automatically referred to the competition authorities. Partly, that is because the Conservative government was worried that French firms, which already had a foothold in the business, would take over the whole thing; a better reason is that water distribution is more expensive than, say, electricity distribution, and so more prone to monopoly.

Firms wanting to merge have therefore been expected to jump through impossibly tight hoops. When Severn Trent and Wessex Water tried to buy South West Water in 1996, according to an adviser on the deal, the regulator at the time, Sir Ian Byatt, said the merger could go ahead only if the combined firms passed on benefits to customers that were roughly equivalent to South West's total annual operating profit. The deal, not surprisingly, did not go through.

As a result, points out Robert Miller-Bakewell, a utilities analyst at

Merrill Lynch, water companies are struggling to cover their cost of capital. Investors have left in droves, and share prices are well down on a couple of years ago (see chart). Some companies have tried to improve things by diversifying into businesses such as waste management and power, but poor credit ratings make raising money expensive. Some are throwing in the towel altogether: last summer, Thames Water, which supplies London, sold out to Germany's RWE.

Doing the splits

Others think they may have found a clever way out of their troubles: breaking themselves up. The idea, cooked up by investment bankers, is to split into two new entities. One would own the old firm's assets, service its debt and contract out the running of plants and pipelines; the other, an operating company employing most of the old staff, would bid for this business. The reasoning behind this is that the asset-owning company, freed from the risks of running operations, should garner a higher credit rating than at present; and as a contractor, the operating company would be unregulated, and thus should be able to make higher returns—and to merge with whomever it liked.

Kelda, which supplies water to Yorkshire, has already tried this trick. Last year it proposed turning the asset-owning bit into a mutual (owned by its customers), but the plan was shot down by Sir Ian, who was worried that it would shift too much risk to consumers.

Now Wales's main water company has come up with a similar plan, which may have a better chance of succeeding. It wants to set up a mutual-style hybrid that would outsource all its operations. This would be owned by nobody, but backed by 200 "members" (ranging from Welsh dignitaries to hospitals). Wales's politicians have thrown their weight behind the plan, on which Philip Fletcher, who took over as regulator from Sir Ian last August, is due to pronounce later this month.

If it goes ahead, the Welsh proposal could become a template for the industry. Kelda would certainly try again. Another to follow could be AWG (formerly Anglian Water), which is keen to reinvent itself as a manager of all kinds of facilities. It has bid to run London Underground, and wants to run oil and gas installations. "We can either lie and wait for the inevitable, or take our destiny in our own hands," says Chris Mellor, AWG's chief executive.

Although Mr Fletcher is likely to give the Welsh proposal a cautious thumbs up, he remains concerned. "I'd be sorry if everyone thinks that restructuring of this kind must be the solution, just because it works for one company," he says. He adds that there are still big questions about risks being shifted to customers, and whether there would be sufficient pressure on broken-up companies to remain efficient. Some think he likes the Welsh plan less than he admits publicly, but feels powerless to oppose it because of the political support it enjoys.

Cracks in the plan

The water companies argue that this financial engineering would boost competition and lower their cost of capital by allowing for more debt financing, which is cheaper than equity, thus making it easier to invest. But there are several reasons to think the move might (literally) end up leaving a bad taste in consumers' mouths.

First, there is the matter of splitting responsibility for safety from responsibility for treating water and pumping it to customers. "In effect, they want to create the very structure that has failed the railways," says an adviser to the water industry who also advised on rail privatisation.

The companies that own the assets will retain responsibility for maintaining them. These companies will, in order to cut costs, be slimmed down. In the Welsh case, the asset-owning bit would be a "virtual utility" employing just 120 people. It would have no equity base, and therefore would be unable to offer the share options that attract good managers. Some critics doubt, therefore, that the companies will

have the wherewithal to manage their networks properly.

Then there is the question of what would happen if things went badly wrong. Some analysts predict that the asset-owning firms would blame operators for failing to report problems, whereas the operators would point the finger back, accusing the owners of poor monitoring and failure to invest.

Companies may end up with less incentive to plan for the long term. Pipeline operators would be on shortish contracts of two to six years. Their priority will be to keep their costs down; as they will be unregulated, they will not have to worry about the long-term effects of under-investment. There is growing concern, says the adviser, that their attitude will be: “Why worry now if pipes are crumbling, as we can always dig into someone else’s pocket to fix things later, just like the rail firms.”

Mr Fletcher admits that the comparison between the break-up proposals and the rail industry’s woes is “an issue that we are focused on. What’s essential is an absolutely clear-cut chain of responsibility. The companies that own the assets need to be fully equipped to deal with failures by contractors.” One or two of the larger water companies—including Severn Trent, which supplies the Midlands—remain unconvinced that they will be. Severn Trent’s managing director, Brian Duckworth, thinks the Welsh proposal and its like are “denigrating UK Water PLC. Outsourcing presents a danger in this business.”

The water industry’s desire to wriggle out of its regulatory stranglehold is understandable, but so is the growing concern over the financial engineering it sees as a way out. Sceptics will take some convincing that the industry is not about to throw itself into the hole that rail is trying to crawl out of.

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Sudan

He won!

Jan 4th 2001 | CAIRO
From The Economist print edition

OMAR BASHIR got himself re-elected as Sudan's president last month with a resounding 86% of the vote. This popular endorsement was nice for the former general, whose grip on Sudan since his 1989 coup has been shaky. Except, of course, that most of his 30m people shunned the polls.

AP

One vote for me, anyhow

There were plenty of reasons. Sudan's fractious opposition united in calling for a boycott. The country's 18-year civil war rages on with no end in sight. The government's Islamist pretensions continue to annoy foreign donors, and the country's primitive economy is burdened with a foreign debt bigger than its puny GNP.

The picture grows even worse. A looming drought in the south-west threatens over 3m people with famine this year, on top of the 1.7m who already survive on international relief. The war, which pits a motley mix of non-Muslim southern secessionists and Muslim northern dissidents against the government in Khartoum, seems to be spreading. Kassala, a strategic town in the north-east, far from the main war zone in the south, briefly fell to rebels last November. In the past year, several of the token southerners in Mr Bashir's government have quit, saying he is not serious about seeking peace.

At the same time, growing divisions within Islamist ranks may have weakened Mr Bashir's power base. He spent much of last year manoeuvring openly against his erstwhile mentor, the charismatic ex-speaker of parliament, Hassan Turabi. The payoff came in June, when Mr Turabi's own party ousted him in favour of Mr Bashir's allies. The recent elections were meant to consolidate these gains, but Mr Turabi, who joined the boycott, remains a potent challenge to the president's Islamist legitimacy.

Yet it may be a mistake to write off this ungainly chunk of Africa—a country that is five times the size of France—as a nasty dictatorial basket-case. The marginalisation of Mr Turabi has encouraged neighbours, such as Egypt, Libya and Ethiopia, to warm their frosty ties with Sudan. The country's economy grew by an impressive 7% last year, helped by a leap in oil revenues to over $1 billion. The IMF has restored Sudan's voting rights, after a seven-year suspension.

Moreover, despite the occasional arrest of the government's critics, Sudan retains a remarkably open political culture. For what it is worth, its two-year-old constitution enshrines freedom of religion, of expression and of association.

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Chad

Bleak December

Jan 4th 2001 | NDJAMENA
From The Economist print edition

IT HAS been a rotten month for President Idriss Deby of Chad, who at the start of December celebrated the tenth anniversary of his French-assisted seizure of power. By the end of the month the commander of his security guards, Kerim Nassour, had been killed by rebels in the north of the country. An opposition website posted a computer-modified photograph of the president apparently tasting blood on his lips, and looking gratified. There has also been a scandal about counterfeit money, and sharp criticism from Chad's foreign donors.

AP

My money to spend, says Deby

The rebels of the Movement for Democracy and Justice in Chad have their bases in the mountainous desert of the north, from which they attack the government's troops. They are led by Youssouf Togoimi, a former defence minister who used to be close to the president but for the past couple of years has been calling for his resignation. In the closing months of 2000 the government stepped up its campaign against the rebels, using new weapons paid for out of the $25m advance it had received on oil royalties.

This has brought criticism raining down on Mr Deby from all sides. At home, opposition politicians ask how the government can hold out its hand for foreign aid to ward off famine and organise elections when it has money to spare for a civil war. Last June the World Bank gave its backing to a $3.7 billion project—the Doba oilfield in southern Chad, plus a pipeline to transport the oil from Doba to the Cameroon coast—even though the American Treasury is said to have had its doubts. The State Department in Washington—anxious to avoid a repetition of what happened in neighbouring Sudan, where the West hesitated for so long that the Sudanese decided to go it alone with Chinese help—pushed for approval to be granted while there were still American companies in the consortium.

The State Department won, but demanded that the oil revenue should be spent only on things like health and education. When Chad's government admitted at the end of the year that it had spent some on weapons, it was told it would not get its debt reduced. Mr Deby retorted that a sovereign state can use its revenue as it sees fit. But even when oil production is at its peak, Chad will still get more money from foreign aid than from selling oil, so the donors' feelings are important.

There are also a couple of local embarrassments. The president is trying to distance himself from a counterfeit-note scandal going back to 1997 that involves Hassan Fadoul Kitir, a former minister and the prefect of the Ouaddai region. Mr Fadoul was arrested last month in France.

The second row is about mine clearance, which was until recently under the direct control of the president's office. People abroad, moved by pictures of Chadians with their legs blown off, have sent in lots of money to get the mines removed. It was therefore awkward for the president when the government was accused of relaying in other places the handful of mines it had cleared in the far north—and of signing a contract to buy new mines. No wonder Mr Deby wishes he could turn the clock back.

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A fillip for South Africa's schools

Jan 4th 2001 | JOHANNESBURG
From The Economist print edition

PARENTS rejoiced on December 28th, when a cracking improvement in South Africa's school examination results was announced. The proportion of students passing their end-of-high-school exams, which had fallen from bad to dreadful, bounced back from 48.9% in 1999 to 57.9% last year. And the proportion of students who did well enough to qualify for a university place rose from 12.5% to 14%.

The minister of education, Kader Asmal, who was appointed 18 months ago to mend the country's dysfunctional schools, is as popular among parents as he is unpopular with the main teachers' union. The two facts are related. Shop stewards oppose Mr Asmal's rather mild attempts to reward good teachers and discipline drunken or lazy ones. In September, the unions labelled Mr Asmal one of the ten nastiest employers in South Africa. Parents, however, applauded him.

But Mr Asmal's recent triumph was not quite all that it seemed. The soaring pass rate is at least partly due to new restrictions on the number of pupils retaking papers they failed the previous year. Out of the 490,000 candidates, the number of repeaters was slashed from 60,000 last year to only 6,000 this year. This is rational: scarce resources were being wasted on serial flunkers. But the exclusion of many of the dimmest students could account for most of the year-on-year improvement.

Despite this reservation, there is still room for optimism. The previous trend was for schools to get steadily worse; Mr Asmal may have halted the slide. Some of the very worst schools improved dramatically. Last year, 940 schools, a sixth of the total, suffered failure rates of 80% or more. This year, only 499 did. Several schools in poor areas made extraordinary leaps, one in KwaZulu-Natal soaring from a 7% pass rate to 94%. Mr Asmal sent monitors to visit all the worst schools at least three times in the past year. The visitors tried to ensure that teachers showed up to work, that classes took place, and that pupils received their textbooks more or less on time.

Pupils throughout South Africa were made to sit mock exams, which many had not done in the past. They were also awarded up to a quarter of their marks for their year's schoolwork, instead of staking everything on the final exam, as before. A "progressive" curriculum that had confused teachers, and neglected the basics, was modified to make it a bit simpler and more rigorous.

Much work remains. Partly because Mr Asmal's inept predecessor pensioned off thousands of the country's best teachers, there is an aching shortage of maths and science teachers, and of effective principals. Provincial education departments are of variable quality: the provincial education minister in KwaZulu-Natal refused to show up for work for several weeks last year because, she said, her office was bewitched. Many schools are so violent that pupils fear to walk through the vandalised gates, or have no lavatories, making girls too shy to attend. Even now, South Africa's schoolchildren remain among the least numerate in the world, although literacy rates are improving.

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The Palestinian right of return

Jan 4th 2001 | NABLUS AND JERUSALEM
From The Economist print edition

Palestinian-Israeli talks are on the cards, but deadlock has been reached over the rights of the Palestinian refugees who fled in 1948. Our correspondents report from both sides, first from Balata refugee camp near Nablus

AP

THE new year blew in, as the old year blew out, in a gale of Israeli-Palestinian blood. On December 31st, Palestinian guerrillas killed a settler leader and his wife, and the Israeli army killed a prominent official of Yasser Arafat's Fatah movement. Mourners at the funeral for the Jews threatened a pogrom; Fatah said that Israel's prime minister had "opened the gates of hell". The gates were prised further apart over the next days: Israelis killed five more Palestinians, and a car bomb ripped through the Israeli town of Netanya, wounding 54 Israelis.

Amid all this, Mr Arafat went to Washington on January 2nd to seek clarification from Bill Clinton of proposals that America's president had submitted for the general terms of a "framework agreement" that he hopes can be reached before his watch ends on January 20th. Ehud Barak has accepted these proposals as a basis for negotiations, so long as Mr Arafat does the same.

The Palestinian leader's own qualified acceptance was hedged with reservations. He raised no fewer than 25 questions. In particular, he was worried about the division of a new Palestinian state into three separate cantons, and about the exact splitting of sovereignty in East Jerusalem. But, above all, he was concerned about Mr Clinton's proposals for the 3.5m Palestinian refugees who claim the right of return to their homes and lands in what is now Israel.

Mr Clinton's proposals endorse the refugees' right of return, not to Israel, but to a "Palestinian homeland"—which means the future state in the West Bank and Gaza. Those not wishing to take up this right would be compensated and resettled either in their present host countries (mainly Jordan, Syria and Lebanon) or in any third country willing to absorb them. Israel would be expected to take in some refugees but only "consistent with its sovereign decision" and in a way that would not "threaten the Jewish character of the state". If this was the final deal, said an Israeli commentator, "Israelis can relax."

But Mr Arafat would not be able to relax. There is a deep consensus, among refugees in the occupied territories and in the diaspora, that the right of return is an individual right, enshrined in international law, which no national leadership can sign away. "If Yasser Arafat or any other Palestinian leader were to relinquish the right of return, I would lead the revolt against him," said Hussam Khader, a Fatah leader who lives in Balata refugee camp near Nablus in the West Bank.

As with the Muslim sites in Jerusalem, a decision on the right of return is not one that the Palestinian leaders can take on their own. Mr Arafat was expected to give his definitive response to the American proposals after a meeting of Arab foreign ministers in Cairo on January 4th. Jordan, Syria and Lebanon, which between them are host to 2.3m refugees, will be at this meeting. Mr Arafat knows that it will be hard to sell them a deal that requires them to accept the permanent resettlement of Palestinians—unless Israel accepts the principle of return as endorsed by the UN General Assembly in Resolution 194, passed in December 1948.

If Israel were to accept that principle, say refugee leaders, their negotiators could be "flexible" on where, how, over what period and in what numbers the right of return would be exercised. "There is a world of difference between an agreement where Israel refuses to recognise the right of return, and an agreement where Israel recognises the right but insists on a mechanism to implement it," said another Palestinian leader.

But nowhere in the American proposals, say the Palestinians, is there any recognition that Israel might be even partially responsible for the creation of the Palestinian refugee problem. For the Palestinians this is simply one more denial among a litany of others: they quote old myths like Israel's former insistence that there was no such thing as a Palestinian people, or that the Palestinians were instructed by Arab leaders to leave their villages in 1948.

If they are to accept a state on about 20% of historic Palestine, and recognise the rest as "the homeland of the Jewish people", then, say the Palestinians, the time has come for Israeli denials to end and the truth to be admitted. "I am willing forgo any implementation of the right of return," says one refugee from Balata. "But I will not accept an agreement that gives up my right of return. Israel was responsible for my exile. And it must recognise that responsibility."

But Israel sees it differently

Mr Barak's negotiators express surprise at this insistence on the right of return. They had assumed, encouraged, they say, by explicit assurances from Mr Arafat himself, that the Palestinian leaders were prepared to accept words of vague contrition from Israel, and generous allocations of international aid, in place of the right of every refugee and his descendants to go back to his old home inside Israel. This, the Israelis hold, was the ineluctable meaning of the Oslo accords, and of the Palestine Liberation Organisation's "strategic decision" to recognise Israel and adopt the two-state solution. Now, they say, they find their Palestinian interlocutors lining up with the grassroots refugee leaders, in the territories and in the diaspora, who have never abandoned the literal interpretation of the dream of return.

An open letter "to the Palestinian leadership" published this week by Amos Oz, A.B. Yehoshua and other Israeli intellectuals and peace activists dramatically demonstrated the peace camp's backing for Mr Barak's position on the refugees. "We shall never be able to agree", they wrote, "to the return of the refugees to within the borders of Israel. The meaning of such a return would be the elimination of the state of Israel." Yossi Sarid, chairman of the Meretz Party, stated baldly that "Israel can survive without sovereignty over Temple Mount, but it cannot survive with the right of return. If the Palestinians insist on it, there will be no agreement."

But if there is no agreement, says Mr Barak, the incidence of Palestinian attacks in the territories and inside Israel itself will probably increase, as will the risk of a broader regional confrontation. Israel's peace treaties with Egypt and Jordan would come under pressure, he predicts. As minister of defence, he has instructed the army to step up training and preparations for the contingency of full-scale war.

Barak facing defeat

Mr Barak used to argue that his peace policy was a political winner, whatever happened. He proposed to go farther than any previous Israeli leader had in his quest for an agreement with the Palestinians. If he got a deal, the voters would back it, and him, by a landslide. If the Palestinians spurned his offer, the country would rally behind him, united in the knowledge that there were no more concessions he could have made.

But it does not seem to be working out that way. Mr Barak has indeed reached bedrock: not a single voice in mainstream politics has urged him to go beyond his acceptance last week of Mr Clinton's latest peace proposals. If there is a last-minute breakthrough, Mr Barak would doubtless fly to Washington to try once again for a deal; his envoy is already there. But at the moment, if the polls are right, the Israeli public is poised to dump him at the prime-ministerial election on February 6th, and elect the hardline Likud leader, Ariel Sharon.

Why? Mr Barak, even his perennial smile beginning to look wan, is reminding people that it was Mr Sharon's settlement-building on the West Bank, as a Likud minister during the 1970s and 1980s, which helped along the present violence. Mr Sharon's invasion of Lebanon, as minister of defence in 1982, plunged Israel into a costly and pointless occupation that dragged on for two decades. His coat-trailing visit to Temple Mount on September 28th heightened the tensions that exploded into the *intifada*. Surely, Mr Barak said to his dejected ministers, the electorate, like Little Red Riding Hood, would realise who was hiding behind Mr Sharon's carefully cultivated new image of kindly grandfather-cum-moderate elder statesman.

Mr Barak's putative rivals for the leadership of the peace camp, Shimon Peres, a former prime minister, and Avraham Burg, the Knesset speaker, have dutifully protested their loyalty to the beleaguered leader. But beneath the surface there are mutterings about a provision in the election law that enables a candidate to resign from the race, and be replaced by a party colleague, up to 96 hours before the polling stations open.

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About sponsorship

Microsoft's cunning plan

Jan 4th 2001
From The Economist print edition

The firm's blueprint for the future of software is technically ambitious—and, in the light of its battle with antitrust regulators, rather clever

IT WAS an *annus horribilis* for many technology firms, but last year was particularly dismal for Microsoft, the world's largest software company. In April, Judge Thomas Penfield Jackson ruled that the firm had used "anti-competitive means" to preserve its monopoly in PC operating-system software, and in June he ordered it to be split in two. Microsoft appealed against this ruling—the case goes back to court next month—but its share price plummeted.

The firm's woes are not confined to the courtroom. Adoption of Microsoft's Windows 2000 operating system has been slower than expected, as has take-up of its Office 2000 applications suite—particularly bad news, as applications account for half of Microsoft's revenues. A slowdown in the PC industry, combined with the shift from PC-based to Internet-based computing, has further dented the firm's prospects, prompting it to issue its first profit warning in over a decade. To cap it all, Microsoft was this week hit with one of the biggest race-discrimination lawsuits in American history—to be heard, ironically, before Judge Jackson.

Microsoft faces three main challenges: the rise of the Internet, slowing applications revenues and the threat of break-up. But it has a plan, in the form of a new blueprint for the future of software. This plan, called .NET and unveiled last summer, is nebulous in some parts and non-existent in others, but over the next year it should come into focus. And it might just be able to solve all three of Microsoft's problems simultaneously.

Software as a service

Microsoft's dominance of the PC marketplace stems from its ownership of the Windows operating system. Windows provides basic functions, such as drawing windows and menus on the screen, managing network communications and accessing disk-drives, on which all PC software can draw. This ensures the consistency and compatibility of different pieces of software, and provides programmers with building blocks that can be stuck together to make complex products. Microsoft, in turn, benefits by controlling and defining the platform.

With .NET, Microsoft's plan is to establish a new platform. Instead of writing PC software that runs on Windows, the idea is that programmers will write Internet software that runs on .NET. Like Windows, .NET will provide the basic blocks from which more complex software can be constructed. The key difference is that, whereas PC software runs on a single machine, .NET software will involve interactions between many machines connected via the Internet and providing services to each other.

This is, to some extent, already happening on the Internet. Online publishing, for example, involves millions of machines (web servers) providing a service (offering pages) to other machines (PCs running web browsers). All this is possible because the protocols for formatting, requesting and transmitting web pages have been standardised. Microsoft's aim with .NET is to provide the framework for machines to offer other services, such as credit-card authentication, airline reservations or English-French translation, over the Internet. And by providing a complete set of tools to build and link such services, Microsoft hopes to establish a new standard, just as it did with Windows.

This will work, however, only if Microsoft can persuade programmers to write software that runs on its new platform. So this summer, a big step in its .NET strategy will be to provide a set of programming tools, called Visual Studio.NET, to start the ball rolling. If Microsoft can establish a new Internet-based platform, its fortunes will no longer be tied so closely to those of the PC, and it will be better placed to profit from the expected proliferation of non-PC devices, such as smart telephones and set-top boxes.

The rise of .NET does not mean that Microsoft intends to abandon Windows, however. Instead, it hopes that the growth of the .NET platform will drive demand for powerful server software, and hence for Windows 2000 and its associated server add-ons. Furthermore, Microsoft will ensure that .NET services work best when used on PCs running Windows.

Reorganising itself around .NET, rather than Windows, is a shrewd way for Microsoft to respond to the growing importance of the Internet. But, just as significant, the move to a more Internet-centric way of doing things will also make it easier for Microsoft to earn money from its applications software. Instead of selling its Office suite in shrink-wrapped boxes, Microsoft plans to transform it into a subscription-based online service.

Using the .NET platform, services such as messaging, project management and accounting, all provided "on tap" over the Internet, can be woven into the Office suite. Microsoft will be able to charge a subscription for these services, rather than relying on sales and upgrades to maintain its applications revenues. Since many Office users seem to have chosen not to upgrade to the latest version because they are happy with their existing versions of the software, this is a canny move. It also explains Microsoft's announcement on December 21st that it would buy Great Plains Software, a provider of on-tap accounting, finance and payroll services, in a $1.1 billion share-swap.

But will customers really opt for regular subscriptions over occasional upgrades? Chris LeTocq, an analyst at Gartner, suggests that this will be a difficult transition to manage, and that Microsoft will have to time the phasing out of the shrink-wrapped versions of its software carefully if it is to avoid the charge that it is bilking its customers. Another potential problem is that complicated software running on .NET will require a fixed, high-speed Internet connection—something that Microsoft is betting will soon be ubiquitous. Worse, the software-as-a-service approach could mean that firms end up paralysed whenever their network connection goes down.

Pretty hedge

It is, however, .NET's implications for Microsoft's legal difficulties that are the most intriguing. Company officials insist there is no connection between the two, and that Microsoft would be pursuing .NET even if it were not at war with regulators. Microsoft expects the appeal court to rule against a break-up—and its hand has been strengthened by the election of George Bush, who has hinted that he is opposed to a break-up. Even so, it is remarkable how effectively .NET could insulate the firm in the event of its being divided into an operating-system company (which would own Windows) and an applications company (owning Office).

The logic behind such a break-up is that it would separate Microsoft's ownership of the Windows platform from its dominance in applications software. But if Microsoft can successfully move its applications on to the .NET platform, it can afford to jettison Windows. Like a crab shedding its old shell, the applications firm would be able to scuttle off unscathed, owning both the new .NET platform and the services that run on it.

In addition, although Windows is a foundation stone in the current vision of .NET, there is no reason why .NET services should not also work on other operating systems in future. So even if Microsoft is not broken up, .NET provides a good insurance policy against the rise of the popular open-source Linux operating system, which is maintained and distributed free by enthusiasts on the Internet.

Meanwhile, the legal wheels are starting to turn again. Microsoft filed its brief to the Washington appeal court on November 27th, and the Justice Department's reply is expected on January 12th. Microsoft will respond in turn by the end of the month, and oral arguments will be heard in late February. But the chances are that it will be years, rather than months, before a final ruling is made. By then, if Microsoft can implement its crafty but risky new strategy, the verdict could have been rendered irrelevant.

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About sponsorship

Skoda Auto

Slav Motown

Jan 4th 2001 | MLADA BOLESLAV
From The Economist print edition

AP

The Fabia, with optional extras

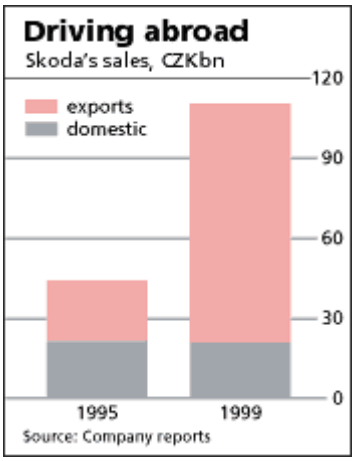
THE Czech word *skoda* means pity or shame. Thus, on spying a passing Skoda car, Czechs used to say "there goes a shame", and nobody would much argue. Skoda's press officer is one Milan Smutny, whose family name means sad. But although jokes about Mr Sad at Shame Inc worked nicely in former Communist times, these days they fall rather flat.

The reason is that Skoda Auto (not to be confused with Skoda Plzen, a decrepit engineering concern) has become the motor of the Czech economy. Some 4% of the Czech workforce, or 150,000 people, are employed, directly or indirectly, by the company, which is based in Mlada Boleslav, a small Bohemian town an hour's drive north of Prague. An impressive 14% of Czech exports are attributable to Skoda and its suppliers. These other firms now account for $3 billion in combined revenues.

When Volkswagen edged out Renault in 1991 to buy a 70% stake in Skoda for $650m, its plan was simple. First, transform the company with German management and lots of cash (over $2 billion so far, but—importantly—from Skoda's own cashflow, not from VW's coffers); then exploit Czech engineering talent, low labour costs and Skoda's access to Central European markets.

This formula has worked wonders. Analysts reckon that Skoda is the most successful former Communist company anywhere. Production has tripled since 1991. In 1997, Skoda overtook Fiat's Polish affiliate as Central Europe's largest car manufacturer. Despite a three-year recession in the Czech Republic, Skoda has doubled its sales since 1995 to $3.2 billion, and last year it made a respectable profit of $75m. Little wonder that VW lobbied hard to buy the Czech government's remaining 30% share in Skoda last year, for a further $320m.

The growth has been driven by exports. In 1991, around 30% of Skodas were sold abroad; now around 80% are exported. Skoda has plants in Poland and Bosnia, and one on the way in India. Its "controlled expansion" into Western Europe has continued apace, especially into Germany, the firm's biggest western market.



Over the Christmas holidays Skoda slipped out the announcement that its bestselling post-Communist model, the Felicia, of which 1.4m have been sold, would cease production in April. The Felicia, which did not meet European Union environmental standards, had, anyway, already been replaced with the critically acclaimed Fabia, a car so slick and high-tech that it promises to bury the Skoda jokes for good (two car magazines, Germany's *Autobild* and Britain's *What Car?*, even named the Fabia their car of the year for 2000). Skoda plans to produce 300,000 Fabias a year, but that figure could be revised upwards. The company's larger model, the Octavia, was originally built with a maximum production run of 90,000 cars a year, but around 160,000 were made last year.

Skoda's latest marketing blitz emphasises quality and value for money, and underlines the company's Czech roots. Skoda, after all, is Europe's third-oldest car manufacturer, founded in 1895—and until first the Nazis and then the Communists got hold of it, Skoda was a prestige marque. Lately, the company has gained from Czech athletic prowess. When Jana Novotna, a lachrymose Czech tennis star, won the

ladies singles at Wimbledon in 1998, she did so with Skoda emblazoned on her shirtsleeves. When, more recently, the Czech team won the ice-hockey world championship, it did so in helmets stencilled with the Skoda name on an ice rink painted with the firm's logo.

Nor does Skoda show any sign of slowing down. A new $562m engine and gearbox plant will open this year, confirming Mlada Boleslav as the Slav Motown. The brand that was once the butt of motorists' jokes is no longer a laughing matter.

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Europe's food retailers

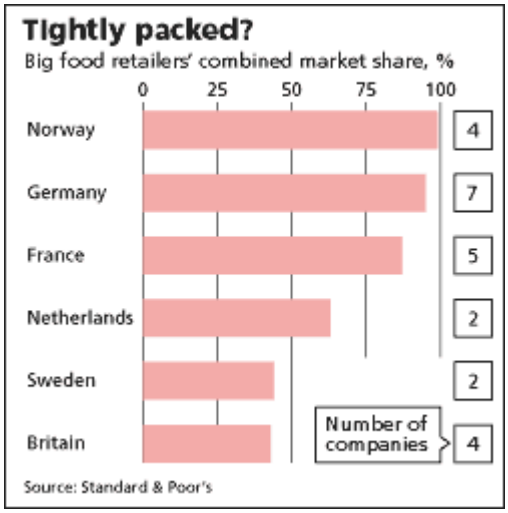
Hungry for credit

Jan 4th 2001 | PARIS
From The Economist print edition

WHAT could food retailing, a dull but essential industry, possibly share with the high-tech, rollercoasting telecoms business? The surprising answer, according to Standard & Poor's (S&P), a rating agency, is that the creditworthiness of both industries is declining, particularly in Europe, thanks to their huge appetite for capital. That is no shock on the telecoms front—massive bills for mobile licences and pricey takeovers have become commonplace, and debts have ballooned. But surely Europe's retailers cannot be accused of anything similar?

They are certainly not in the same league as their telecoms counterparts. Over the past year, however, six of Europe's biggest food retailers have seen their credit ratings either downgraded or given a negative outlook. Among them have been Casino and Carrefour in France, Ahold of the Netherlands and Safeway and Sainsbury in Britain.

The gloomy story can be explained by the structure of Europe's retailing market and how companies have responded to it. At first glance, the market seems to be quite concentrated (see chart). But the true picture is more complex. Although the euro may eventually have a profound effect by improving price transparency and allowing big cost savings, these benefits lie largely in the future. For now, national market quirks remain a barrier to cross-border consolidation, so most deals have been domestic.



Recently there have been signs that cross-border activity is picking up. But this has tended to be in smaller and more fragmented markets such as Italy and Portugal, in which Ahold, Carrefour and its French rival, Auchan, have been particularly busy. In general, European food retailing falls far short of being a regional single market. For all its bulk, for example, Carrefour has no presence in either Germany or Britain. Only in the discount and cash-and-carry niche markets are there genuinely pan-European companies, such as Aldi and Lidl of Germany.

As a result of the difficult market structure in Europe, several companies have expanded elsewhere, becoming leaders in a global race to grab new markets in Latin America and Asia, where cost-efficient hypermarkets are a novelty. A few, such as Ahold and Belgium's Delhaize, have successfully entered the competitive American market. Delhaize relied on its American operations for a remarkable 89% of its profits before interest and tax last year. Carrefour has spread itself the widest. According to Merrill Lynch, it now relies on its home market for only 47% of sales.

It is, however, this push beyond Europe that explains the credit pressure on the industry. Although Carrefour and Ahold already make plenty of money abroad, their continuing expansion is straining their balance sheets. Others, such as Casino and Tesco, Britain's market leader, are investing large sums abroad in a bid to catch up. Capital spending has sucked up most of their cashflow, forcing them to take on more debt.

Moreover, the pressure is spreading. As competition intensifies, those companies that lack a strong position in a big domestic market are struggling. Laurus, the number two retailer in the Netherlands, is restructuring in an attempt to keep Ahold in sight. In Britain, Safeway and Sainsbury are trying to keep pace with Tesco and Asda. Unlike their bigger, increasingly global rivals, they cannot look to profits growth in frothy new markets to give their creditworthiness a push in the right direction.

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About sponsorship

Face value

Don’t look down

Jan 4th 2001
From The Economist print edition

Blockbuster products and corporate chutzpah have turned Pfizer into a darling of Wall Street. Can Hank McKinnell, the new man in charge, rise to its lofty expectations?

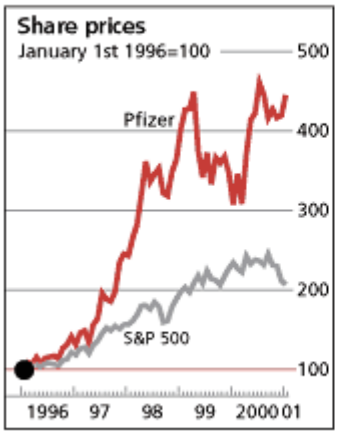
NEW year’s resolutions are well and good, but it is going to take more than wishful thinking to get Hank McKinnell through the next 12 months. This week he took over the top job at Pfizer, the world’s largest drug company, and the only one to boast eight products earning more than $1 billion apiece. But although he is respected by his drug-making peers for his knowledge and management skills, Mr McKinnell is an unknown quantity outside the industry.

The public face of Pfizer has long been William Steere, its outgoing chief executive, who helped to transform the company from a mid-sized American drug maker into a global leader in drugs for cardiovascular disease, infection and central nervous system disorders. The company did not, however, get there on its own. Pfizer likes to pair up with other drug makers to bring products to market. Many of its bestselling pharmaceuticals, such as Celebrex, a new anti-inflammatory medicine, or Lipitor, a cholesterol-lowering drug, were actually developed by other firms.

These rivals turn to Pfizer largely for its marketing prowess. Mr McKinnell insists that Pfizer’s salesmanship is about more than having bodies pounding on doctors’ doors or ads bombarding the airwaves. The company invests heavily in clinical research, beyond what is needed to get its drugs past the regulators. Nor does Pfizer shy away from risky propositions; this is, after all, the company that turned a lacklustre anti-hypertension drug into a blockbuster called Viagra.

Such opportunism has made Pfizer immensely profitable. But it has also made it unpopular with those Americans who blame profiteering drug firms for the high prices of pills for the elderly, as well as with campaigners in poor countries that are wrestling with western drug companies over access to expensive medicines.

Pfizzing



World’s bestselling drugs
October 2000

	Product	Company
1	Losec	AstraZeneca
2	Lipitor	Pfizer
3	Zocor	Merck
4	Norvasc	Pfizer
5	Ogastro	Abbott Labs
6	Prozac	Eli Lilly
7	Celebrex	Searle/Pfizer
8	Seroxat	GlaxoSmithKline
9	Claritine	Schering Plough
10	Zyprexa	Eli Lilly

Sources: Thomson Financial Datastream; IMS Health

Mr McKinnell rejects the notion that Pfizer has a hard image, and makes no apology for his firm’s aggressive tactics in getting drugs to market. Such tough talk sounds odd in the folksy accent of this small-town Canadian. Although Mr McKinnell’s style is more approachable than his predecessor’s, close

observers reckon his substance is just as strong. This is just as well, since Mr McKinnell faces the daunting task of justifying Pfizer's biggest gamble yet: its $90 billion purchase of Warner-Lambert, an American rival, in 2000.

Mergers in the drugs industry tend to be consensual affairs. Not so Pfizer's hostile bid for Warner-Lambert, which had agreed a union with American Home Products. Warner's management tried to avoid Pfizer's clutches, but the giant's offer, made in the rapidly appreciating currency of its own shares, eventually won the day.

Although Pfizer had little experience of mergers, the Warner-Lambert takeover has gone well. Pfizer is on track to save over $1.6 billion by the end of 2002 from integrating the two firms, more than originally predicted. Mr McKinnell, who has led the integration effort, believes that a willingness to embrace Warner-Lambert's practices where they proved superior to Pfizer's has helped to avoid a clash between the two firms. Cynics respond that there is little Warner-Lambert culture left, after the departure of most of its top managers.

Mr McKinnell now finds himself at the head of an army of 12,000 researchers, with an annual research and development (R&D) budget of $5 billion. Companies this big are unprecedented in the pharmaceutical industry—and, some argue, unnecessary. Estimates by Stewart Adkins of Lehman Brothers suggest it takes no more than $130m to assemble the tools needed to discover new medicines. At that cost, even mid-sized firms can compete. There is no evidence that big drug firms are any more innovative than their smaller peers.

Is big better?

Many top drug makers argue that the full sequencing of the human genome has changed the rules, and that in future their companies will need size in order to muster the money, machines and manpower to exploit the new goldmine. But Mr McKinnell is not so sure that bigger is better, at least in discovering new drugs. Pfizer, he says, took Warner-Lambert not out of aspirations of scale, but because it was simply too good a morsel to pass up. That it has brought size too is something that will need careful management. Like its newly merged and closest rival, GlaxoSmithKline, Pfizer is reorganising its R&D machine to seek a balance between scientific creativity and economies of scale.

Nobody knows if such well-laid plans will yield rewards. Meanwhile, though, Mr McKinnell has to manage investors' expectations. Pfizer has had setbacks, such as the withdrawal of its new antibiotic, Trovan. Two of the three products it is trying to launch this year, for migraine and schizophrenia, have had problems with regulators. Luckily, few of the patents on Pfizer's top-selling drugs are due to expire in the near future. But its skill at creating demand for its products has eased the way to market for competitors to Lipitor, Viagra and Zithromax, its best-selling antibiotic. And though Pfizer has more than 150 projects in the works, such as inhaled insulin, its short-term pipeline is running low. To keep Wall Street happy, Mr McKinnell may have to do yet another deal, perhaps with Pharmacia, in the near future.The problem with being at the top is that the easiest way forward is down.

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American steel

Meltdown

Jan 4th 2001 | NEW YORK
From The Economist print edition

THE bankruptcy of LTV, America's third-biggest steel maker, on December 29th generated plenty of emotions, but surprise was not one of them. This was not only because LTV had gone into Chapter 11 bankruptcy before and a repeat was widely expected (it was the third bust in the industry in as many months), but also because the excuse for its miserable performance was so familiar: dastardly foreigners are ruining America's once-great steel business, dumping rolls of steel on American shores at far below cost. This refrain might play well in Washington, but it gets less true by the day.

For a start, imports, which have never accounted for more than about a third of American steel consumption, are now at their lowest level in years (and were down more than a quarter, year-on-year, in November). Part of the reason, and a big factor in LTV's collapse, is that American steel prices have plummeted to a 20-year low—so low that hardly anybody, not even cheap Asian producers, can make money. The blame for this lies not with subsidised imports but simply with too much product and not enough demand—two problems that are mainly domestic in origin, since they stem from a slowdown in the car industry and a lack of consolidation in the American steel industry itself.

Steel is an old business in America, dominated by firms such as USX and Bethlehem Steel that date back to the 19th century. That is a proud legacy but also a costly one, measured in everything from the size of their pension plans to the cost of cleaning up old facilities. Bethlehem Steel, for instance, no longer makes steel at the huge plant around its Pennsylvania headquarters. The towering blast furnaces are being turned into a museum and the black monolith of an executive headquarters is now shared with an accounting firm. In the staff canteen it is easy to tell which employees are which: the ones with grey hair work for the steel company. The average age of members of the United Steelworkers of America, the main union, is 50; some integrated companies have five retired workers for every active employee.

Small is beautiful

The big "integrated" steel makers, such as LTV, USX and Bethlehem, have high fixed costs and long planning cycles; turning ore into finished steel requires massive plants that can take a decade or more to complete or retool. By contrast, the "mini-mills" of competitors such as Nucor, which make new steel from scrap, are smaller, cheaper and faster to set up, allowing their owners to react more flexibly to market conditions.

Over the past 25 years, steel from domestic mini-mills has taken far more of the integrated giants' market share than have foreigners. Nucor is now worth more than the three leading integrated makers combined. Yet mini-mills cannot do it all: there is not enough scrap to satisfy all steel demand, and steel made from scrap is not high enough quality for all uses. Integrated producers may be out of fashion, but they are not about to go away entirely.

But will they be American? To hear the industry's lobbyists tell it, this hinges on political willingness to fight unfair trade. Backed by an army of lawyers, American steel makers have been attacking imports for decades, successfully winning over one administration after another. Despite years of decline, steel remains one of the most protected and subsidised industries in America, and one of the main irritants in global trade negotiations, weakening American arguments for open markets elsewhere.

Imports have indeed exacerbated the steel industry's problems, but far less imported steel than the

industry claims has been true dumping. Aside from their own high costs, the biggest blow to American steel makers in recent years has been the strong dollar, which makes all imports cheaper. The Asian financial crisis took this to an extreme; as Asian steel demand dried up, the plunge of currencies there made steel from South Korea, in particular, irresistibly cheap.

Since the crisis, however, much has changed. Asia has largely recovered and the dollar has weakened, making American steel more competitive. Tariffs and other trade sanctions have slashed imports from countries such as Russia. The continuing financial woes of American steel firms make it easier for trade officials to find the “injury” they need to justify harsh import restrictions. Indeed, last month a trade panel found that 11 countries’ imports had harmed steel makers—a first step to imposing sanctions.

Perhaps because of all this protection, America’s steel producers have been slow to do the one thing that might help them most: merge. The biggest of them, USX, is only the world’s 11th-largest steel maker, although America until recently was the world’s largest steel market (China has now overtaken it). Even as steel companies in Europe, Asia and Latin America have joined up, American firms have remained stubbornly apart, resulting in excess capacity and scale inefficiencies.

The problem, argues Michael Gambardella, an analyst at J.P. Morgan, is that the companies are distracted by the difficulties in finding a good fit between existing production facilities, rather than focusing on non-production-related expenses, which eat up most of their margin, even in good years. The result may be more acquisitions from abroad, which would give foreign firms a production base inside American trade barriers. Considering that Bethlehem Steel, for instance, is now worth just $250m—small change for any big firm—such an option has never been cheaper.

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Economist.com BUSINESS
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About sponsorship

Advertising to children

Kid gloves

Jan 4th 2001 | NEW YORK
From The Economist print edition

Pressure is growing to ban advertising aimed at children. Do such clampdowns make sense?

FROM an advertiser's viewpoint, children are a splendid audience. They watch lots of television; they spend lots of pocket money; they go shopping with Mum, and nag her to death to buy the latest fad in breakfast cereal or fizzy drinks. No wonder many folk worry about the influence of marketing on minors. Increasingly, campaigners are demanding that countries impose restrictions on advertising aimed at children.

Thus the newly senatorial Hillary Clinton wants to introduce a bill empowering America's Federal Trade Commission to stop "unfair" marketing to children, especially to under-fives. In Europe, legislation to curb marketing to children is spreading. Greece, where all toy advertising on television is banned between 7am and 10pm, has considered extending the ban to all products aimed at children. Italy, Poland, Belgium and Ireland are all debating the issue. Tougher measures may lie ahead: Sweden, where TV advertising aimed at children under 12 has been illegal since 1991, plans to use its six months in the president's chair of the European Union to encourage a tightening of the EU's relatively liberal rules on TV advertising.

The campaigners claim that children are too naive to distinguish between ads and genuine programming. "Young children are not able to understand what advertising is about. Advertisers are taking advantage of their childishness," says Lars Maren, senior adviser to the Swedish culture ministry. Even those children who can make such a distinction, he argues, might still be manipulated by a commercial into pestering their parents to buy a product—what marketers cynically call "nag and whine" campaigns.

Some critics also worry about the social impact of advertising to children. Britain's chancellor of the exchequer, Gordon Brown, recently accused advertisers of highlighting social divisions by marketing expensive toys and gadgets that poorer families cannot afford. Britain's Food Standards Agency is calling for tighter standards on food advertising to young people, because it believes such marketing contributes to childhood obesity.

Add to this a concern about the growing intrusion of marketing in schools. Channel One, a cable network, offers free TVs to participating schools in America, provided that the students watch a daily "lite news" programme complete with ads. Joel Babbit, the company's former president, lured advertisers with the claim that his company was "forcing kids to watch two minutes of commercials a day". Another example is ZapMe! Corporation, which was forced to back down after parents complained that the firm was selling data on their children to advertisers, in return for placing computers in schools. "We are seeing the commercialisation of childhood," grumbles Gary Ruskin, director of Commercial Alert, a Washington lobby group.

Advertisers insist that a widespread move to ban children's ads would backfire. Their main argument is that bans would lead to worse children's programming on television, fewer educational resources in schools and higher prices for toys. There may be something in this. Britain's ITV says it ploughs back nearly all the £45m ($67m) in revenue it generates each year from children's advertising into home-grown kids' programmes.

Greece's ban on TV toy advertising—originally a protectionist measure for local toy makers—has stoked a debate about the quality and limited selection of home-produced children's programmes. One big American toy manufacturer in Greece says that, as a direct result of the ban, the company offered retailers a more limited selection of new toys this Christmas than it did in other European markets.

Commercial marketing in schools also has benefits. Britain's government, for one, wants more business

involvement in schools, after the success of initiatives such as a loyalty scheme linked to Tesco, a food retailer. This rewards parents' spending on groceries with points that go towards school computers.

Advertisers could, in any case, easily get around TV advertising bans. In Sweden, they have stepped up other kinds of marketing to children, from billboards to in-store promotions. The government is powerless to stop offshore broadcasters from beaming programming with Swedish-language advertising into the country—which is one reason why it is keen to rewrite the EU's rules. "In reality, Sweden's ban hasn't worked," concludes Erling Bjurström, a professor of communications at Stockholm's National Institute for Working Life, on whose research Sweden's 1991 law was based.

Clever kids

In fact, both sides are missing the real point. Advertisers are not as influential as they seem. A recent study by the Advertising Education Forum of 5,000 parents in 20 European countries found that 86% did not rate advertising among the top five influences on their children: parents, schools and other families, among others, were seen as far more important.

Nor are children as gullible as advertisers and campaigners believe. In a study published last November, Brian Young, a psychology professor at the University of Exeter, found that children as young as six can understand the purpose of commercials and can distinguish them from entertainment. A review of 20 studies on advertising to children that had been conducted over the past 32 years, published by Britain's Social Affairs Unit, calls the view that children are easily manipulated by advertising "naive". It also finds no evidence that such advertising leads to battles between parents and children. "Children are not gullible. A pestering child is a badly brought-up child," says Adrian Furnham, the review's author (and a parent).

This highlights the most important case against shielding children from marketing—that parents and teachers have a responsibility to teach children about the realities of a commercial world, just as they teach them how to cross a road safely. Deborah Regan Howe, a mother of two in Buffalo, New York, says that by watching advertisements with her six-year-old son and discussing their intent, she has got him to develop a sophisticated understanding of marketing. "We talk about why children in ads look happy and what the toys might be like in reality. He still asks me for the latest thing, but there is no battle. He understands why if he doesn't get it." The Swedes may find they have a tough time convincing their European neighbours that this kind of education is a job for the state.

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Letsbinit.com

Jan 4th 2001 | PARIS
From The Economist print edition

PERHAPS the most unnerving aspect of recent travails among so many technology companies is that bright stars have fallen as far as dull ones. In America, a notable e-commerce casualty has been Priceline, a name-your-price auction outfit that was once capable of luring top bosses away from multinationals but now verges on the moribund. In Europe, the new year began with a profits warning from Intershop, a much-hyped German software firm. After its announcement on January 2nd, its shares on Frankfurt's battered Neuer Markt dived by 70%.

Another victim has been Letsbuyit.com, a pan-European B2C (business-to-consumer) Internet company that was once tipped to have a bright future but is now fading fast. Founded by Swedes in 1999, Letsbuyit suffered the indignity of seeing its shares suspended on December 29th after it entered bankruptcy protection. When trading resumed on January 2nd, the shares lost half their value. Letsbuyit's imminent failure can be put down to three factors: bad timing, over-ambition and a questionable business model.

The company's timing problem dates back to its flotation last July. In a deteriorating market for technology shares, it first postponed its listing, then managed to raise *euro*62m ($60m)—only half the sum it had hoped for and far short of the *euro*180m it reckoned to need in order to reach break-even by the end of 2002.

By October, Letsbuyit was looking for a strategic partner. But investors had become leery of Internet companies and no deal was done. As its finances became ropier, Letsbuyit was forced to seek protection from creditors, if only to buy itself a little more time. On January 3rd, the firm's management board resigned en masse. As *The Economist* went to press, no rescuer had appeared.

In retrospect, Letsbuyit was too ambitious. After headlong expansion, it operates in 14 European countries, selling a comprehensive range of consumer goods, from diamond necklaces to electronic equipment. That translates into high marketing and infrastructure costs. But the firm also derives a disproportionate amount of revenue from Germany and Austria. The rest of its network failed to pull its weight.

Letsbuyit's business model was beguiling, but it failed to catch on. The idea was that consumers would group together to secure bulk discounts on products, a similar notion to that followed by American firms such as Mercata and Accompany. But it proved hard to persuade enough people to sign up. Discounts were either unimpressive compared with those available elsewhere or simply unattainable for lack of scale. And Letsbuyit worked on minuscule margins, because the advantages of bulk-buying went largely to consumers. For the firm's shareholders, the exercise has produced no advantages at all.

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The terrible twos begin

Jan 4th 2001 | FRANKFURT
From The Economist print edition

On new year's day the euro celebrated its second birthday and gained a new member, Greece. After a rocky start on the currency markets, it has also recently rebounded against the dollar. Yet even stiffer tests now lie ahead for the currency's guardian, the European Central Bank

YOU might think that life was at last getting easier for the infant European Central Bank. The twin threats that have hung over its goal of price stability, high oil prices and the weakness of the euro, are both subsiding. The euro's sharp recovery has stifled the gripes of Europe's politicians about both the ECB's policies and its president, Wim Duisenberg. Even the recent slowdown in most of the euro area's economies may prove to be good news, since most economists now expect the next move in interest rates to be downwards, following a climb of two-and-a-quarter percentage points between November 1999 and October 2000.

This week marked another seminal moment besides the currency's climb towards 95 cents against the dollar. On January 1st Greece became the euro's 12th member, shedding Europe's oldest currency, the drachma. Greece is the first country to join since the euro's birth. Its arrival somewhat makes up for the disappointment of the Danish vote against entry in a referendum held in September. The odds against either of the two other EU non-euro members, Britain and Sweden, joining soon have risen since the Danish vote.

Assimilating Greece should be fairly easy: its GDP is less than 2% of the euro area's. But its higher growth and inflation rates than those of the bigger members will continue to raise questions about the suitability of a one-size-fits-all monetary policy—just as they have done for Ireland, which has the highest inflation rate in the OECD. These questions will intensify as Central and Eastern European countries prepare to join both the EU and the euro.

Even before then, the ECB faces several daunting challenges over its next two years. Its monetary-policy task is likely to prove especially hard, as uncertainty over the path of the world economy grows. So far, it has operated in a largely benign global climate in which any talk of recession was far-fetched. But it may this year have to act more vigorously to sustain growth and fend off deflation—especially if the euro keeps on rising. As a mere two-year-old, its record in adversity is largely untried.

Next January will see the introduction of euro notes and coins, a logistical and marketing operation of immense proportions. And Mr Duisenberg has promised to "retire" some time in 2002, to be replaced by the urbane governor of the Bank of France, Jean-Claude Trichet. This was the compromise agreed at the time of Mr Duisenberg's appointment in May 1998; but it has no legal force, and a judicial investigation into Mr Trichet's handling of Crédit Lyonnais, a French bank, may preclude his appointment to the ECB presidency in any case.

As if all this were not enough, there are at least three other difficulties that, sooner or later, will have to be resolved, either by the ECB itself or by the European Union's politicians. The first is that the ECB has not yet learned how to communicate the way it executes monetary policy to financial markets and the media; or, put another way, outside commentators have not yet learned to "read" the ECB as clearly as they can America's Federal Reserve.

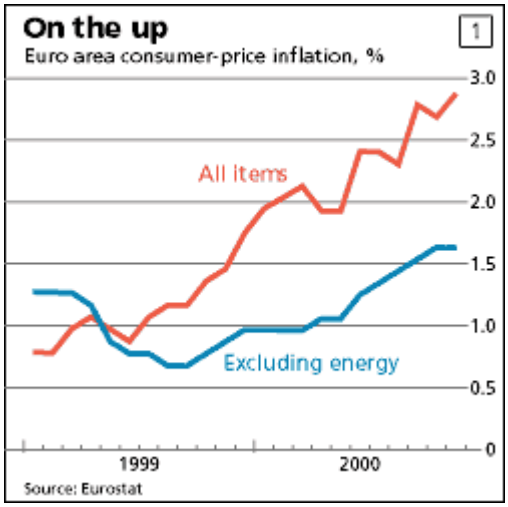
The second is that the division of responsibilities between the ECB and the national central banks (NCBs)—collectively known as the Eurosystem—needs to be reworked. Although monetary policy is now conducted in Frankfurt, NCBs retain many other central-banking tasks, including the prudential supervision of banks. There is a good case for shifting more to the euro-area level, and for doing it sooner rather than later. And the third is the prospective accession to the euro of Central and Eastern European countries. Although this is several years away, it is already stirring debate.

Read my lips, every month

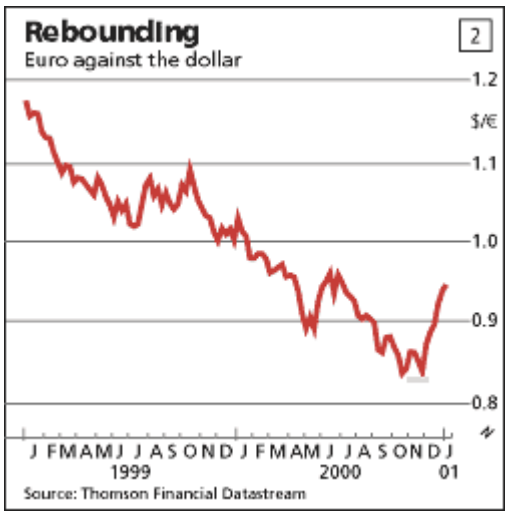
The most immediate of these three issues is the ECB's communication problem. This was neatly summarised last June by Otmar Issing, its chief economist and a member of its six-strong executive board, when he said that "the verdict among most, if not all, our 'watchers' seems to be that—broadly speaking—the ECB has done a good job but has not been very effective in presenting and explaining itself." As Mr Issing also said, this is a matter of more than public relations.

The ECB's task is to maintain stable prices, which it defines as an annual inflation rate of no more than 2%. In November inflation was well above this target, at 2.9%; but it is hard to criticise the bank, because a lot of the excess was caused by high oil prices and the falling currency. Moreover, since monetary policy works with lags of up to two years, the full impact of the ECB's first interest-rate decisions has only just worked through. The ECB's real job is to stop inflation taking a grip, by feeding through from oil prices to wages and consumer prices. Stripped of energy prices, inflation has stayed within bounds (see chart 1).

Nor does it make much sense to bash the ECB for the pasting that the euro took in the currency markets for its first 22 months. Mr Duisenberg may have helped to put the skids under it with some incautious remarks, notably in an ill-judged newspaper interview in October. But for most of 2000 market sentiment was against the currency anyway, thanks to the perceived weakness of the euro area relative to the United States. Once the news from across the Atlantic worsened, the euro began to recover, rising by almost 15% between its late-October trough and this week (see chart 2). In any case, the ECB is charged with maintaining the internal value of the euro, not the exchange rate—and, since trade now accounts for only some 10% of euro-area GDP, the inflationary impact of any depreciation is smaller than it was for, say, the D-mark.



Yet the fact remains that financial markets have found the ECB's actions hard to understand. In a way, this is curious, because the bank has gone to great lengths to try to make its thinking plain. America's Federal Reserve has no inflation target. Unlike the ECB, it has never written down its monetary-policy strategy. Nor does Alan Greenspan, the Fed chairman, hold on-the-record press briefings to explain what the Fed is up to. Mr Duisenberg, in contrast, gives one a month.



Thomas Mayer, an economist at Goldman Sachs in Frankfurt, likes to differentiate the ECB's approach from what he calls the "Greenspan model" of central banking. In Mr Greenspan, the Fed has a strong leader who has managed to steer markets' expectations skilfully. Mr Duisenberg is more a "moderator" of the ECB's 18-strong governing council (the six executive board members, plus the 12 NCB governors), which meets to set rates every fortnight.

Unable to rely on a strong individual, the ECB has set out a monetary-policy strategy with two "pillars", designed by Mr Issing. The first pillar is the money supply, reflecting the fact that inflation in the long run is a monetary phenomenon. The second consists of other, short-run influences on the price level. Nothing wrong with that, says Mr Mayer: the problem is that it is not clear to ECB-watchers such as himself whether the governing council is using this framework in a consistent way.

For example, economists point to the way the ECB reacted to the euro's plunge. At first, says Mr Mayer, "Duisenberg gave the impression that they would neglect the currency." But last autumn the ECB intervened to support it. Michael Schubert of Commerzbank, a German bank, says that the ECB estimated that the devaluation of the euro in 1999 would add only 0.2 percentage points to inflation; so, he comments, "I expected that in the coming months there'd be no increase in interest rates. But they did it."

Worse, the more the ECB tries to explain, the more confusion it sows. Just before Christmas it published projections of GDP growth and inflation for the next couple of years. These, stresses the bank, are not forecasts, nor do they reflect the view of the governing council. They are instead an "input" to the rate-setting process, supplied by the bank's staff. However, quite a few economists are not sure what the new information is worth. The range of projections is pretty broad: GDP growth in 2001, for instance, is set to lie somewhere between 2.6% and 3.6%. Moreover, points out Mr Schubert, the mid-point of the inflation projection for 2002 is 1.9%, within the definition of price stability. Yet the forecast assumes no change in exchange rates. Why, he asks, has the ECB been complaining about the undervaluation of the euro if, according to its own staff, it presents no threat to the bank's objective?

It is hard to see what might solve this problem, except for more experience on both sides. "Transparency," said Mr Issing last year, "is a rather subjective notion and may have a lot to do with familiarity." Publishing the minutes of the ECB meetings, as happens with the Fed and the Bank of England, would clarify the arguments put forward in the governing council; but, on the other hand, the exposure of 18 different arguments might confuse ECB-watchers even more. And it is hard to claim that the ECB's problem is a lack of openness.

The doubts about the presidency of the ECB will also continue to cast a cloud. Mr Duisenberg is still expected to stick to his bargain and quit next year. But because Mr Trichet can no longer be considered a certainty as his successor, others are already said to be manoeuvring behind the scenes. The French are unlikely to surrender the post without a fight, so if Mr Trichet is ruled out they might have to look for an alternative. But since they have no other obvious figure with central-banking clout, other countries might wish to offer candidates of their own. It took over 12 hours of heated argument at a Brussels summit to settle the presidency of the ECB last time round.

A case for centralisation?

The second difficulty is the relationship between the ECB and the national central banks. Although the NCBs are no longer responsible for national policy, they have kept several other important jobs. Bank supervision and financial stability are still under their eyes. NCBs still maintain their own payment systems, even though the Eurosystem has its own, TARGET. In all, according to an estimate by Lorenzo Bini Smaghi of the Italian treasury and Daniel Gros of the Centre for European Policy Studies in Brussels, in "Open Issues in European Central Banking" (published by Macmillan in 2000), over 50% of the Eurosystem balance sheet is outside the ECB's direct control because it is supposedly unrelated to monetary policy.

Does this arrangement make sense in a monetary union? Suppose that a fair-sized bank in a large euro-area country ran into difficulty. The national central bank alone, looking at the domestic market, would not be able to judge whether the failure of the bank would pose a systemic risk to the euro-area's banking system. If there is a systemic risk across the euro area, it is arguable that a national central bank ought not to have to recapitalise the bank by itself. And national bank supervision might even increase the risk of bank failure, if NCBs worried only about the banks' domestic liabilities rather than their exposure across the euro area.

There is a case for leaving things as they are. There are, after all, no signs of instability in the euro area yet. And banking markets are mostly still national, rather than cross-border. But this misses the point, say Messrs Bini Smaghi and Gros. It is better to act while things are quiet than to try to cobble together a new structure in a crisis. It is also a mistake to suppose that, just because most bank lending takes place in domestic markets, euro-area banks are not exposed to other euro-area risks. There is a single money market; euro-area government bonds are virtually perfect substitutes; and there is a single foreign-exchange market.

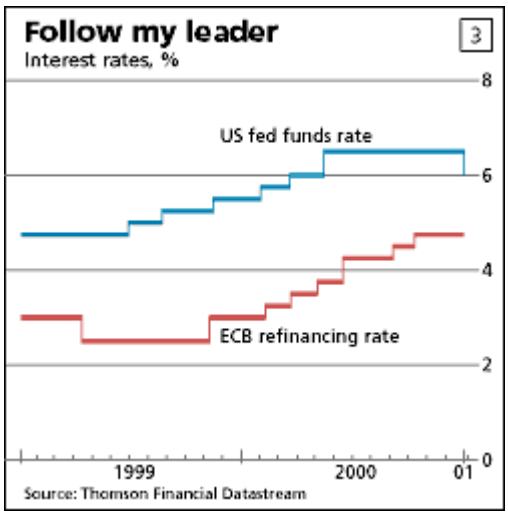
The answer is surely not to have every bank supervised in Frankfurt. Perhaps only a few dozen of the euro area's 9,000 banks will need any supranational supervision. In the first instance, closer co-operation between NCBs is the easiest and most likely way forward. And even if supervision across the euro-area does develop, it is not certain that the ECB should do everything. In Germany, for instance, a "liquidity consortium", not the Bundesbank, appraises the solvency of stricken banks and lends them funds if they look salvageable. But it is better to start doing something now, rather than wait for a crisis to blow up.

Eastern approaches

The third problem ahead is the queue of Central and Eastern European countries wanting to join both the EU and the single currency. Their accession to the euro, even on the most optimistic timetable, looks far away (although several are already linking their currencies to the euro, and some may yet toy with "euroisation" ahead of entry). None will join the EU before 2004. They will then have to be members of the exchange-rate mechanism, limiting fluctuations against the euro, for at least two years. After that (ie, in 2006 at the earliest), they will be admitted to the euro area if they satisfy the Maastricht treaty criteria on inflation, interest rates, budget deficits and government debt. Unlike Britain and Denmark, the new countries cannot formally opt out of the euro. If they pass the Maastricht tests, they are supposed to join—though Sweden has stayed out even without a treaty-sanctioned opt-out.

Long before the Central and Eastern Europeans join, the way in which the ECB takes interest-rate decisions will have to be reformed. The current rules give every NCB governor a seat on the governing council, alongside the executive board. All members have equal weight. So far, decisions have been taken by consensus rather than majority vote (at any rate, no vote has ever been admitted to). This system is hard enough to manage even with 18 members. With perhaps 30-odd, it will become all but impossible. It will be harder to forge a consensus on interest rates, or to pretend that one exists. And with more use of votes, it seems highly improbable that the big euro-area countries will accept having the same voting power as, say, Estonia or Slovenia.

There is another argument pushing for change: that the relative weight of NCB governors, as a group, on the governing council will otherwise grow at the expense of the centre. The Fed gives its regional presidents a minority of votes on its open-market committee. In an enlarged ECB, the NCB governors could control as many as four-fifths of the votes. That risks giving too much weight to regional concerns, and not enough to the centre.



Europe's political leaders have already spotted that the system needs adjustment. In the treaty negotiated at the Nice summit last month, they agreed that the Council of Ministers should be able to amend the ECB's decision-making procedures, acting on a recommendation from either the European Commission or the ECB. But how the rules might change is far from decided.

One model is to take a leaf out of the Fed's book, and rotate the right to vote: only five of the presidents of the 12 district Federal Reserve banks have a vote in any year, plus the seven Fed governors. In Europe, this might have to be amended to give permanent voting rights to NCBs from big countries: in America, the president of the New York Fed is the only regional boss with perpetual voting rights. But as the abortive Nice summit discussions on limiting the size of the European Commission to less than one per member country showed, getting such a change agreed may prove extremely hard.

How long EU governments have to do it depends largely on how soon the acceding countries will be ready to join. In theory, preparations are already taken care of by the Maastricht criteria. Indeed, several countries are already well on course, and look in better shape than did Italy, Spain or Portugal in the

early 1990s or Greece did even more recently. As happened with the southern Europeans, the goal of joining the single currency, enshrined in these criteria, should give the easterners the incentive to put their macroeconomic houses in order.

For the markets, the Maastricht criteria may be essential. It could help to allay fears that letting in “soft” countries such as Greece, and later others from Central and Eastern Europe, when such “hard” countries as Britain, Denmark and Sweden still stand aside, could somehow undermine the euro. But from a broader economic point of view, Maastricht may be as much a hindrance as a help. It is too soon to measure the Central and Eastern Europeans against the Maastricht yardsticks—and not only because they are not yet members of the EU. The reason? Their GDP per head is far below the European average. Joining the EU, or the prospect of it, ought to help them catch up. However, as they catch up, their price levels as well as average incomes should in theory converge on the European average. That implies a higher inflation rate.

Get moving now

How much time do the ECB and EU governments have to sort out the ECB’s various challenges? If economics were the sole guide, the politicians and bankers ought to be able to put the institutional implications of the admission of the Central and Eastern Europeans on hold for several years. But politics may force them to decide on a new system within, say, three or four years, ahead of the possible admission to the euro of some countries in 2006.

The division of labour between the ECB and the NCBs, and the communication problem, are more pressing. Certainly, there is little virtue in waiting for the euro area’s first financial crisis to prompt action. And markets will have to have a clearer understanding of ECB policies before eastward expansion forces institutional reform. As for the presidency of the ECB, this too will also need to be sorted out quite soon. One way and another, this year and next look likely to be every bit as controversial and difficult as have the bank’s—and the euro’s—first two years.

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When America sneezes

Jan 4th 2001
From The Economist print edition

The Fed's interest-rate cut suggests that it is worried about a possible American recession. But if it arrives, does the rest of the world have to catch cold too?

HOW fast the mood has changed. Only a few months ago, many economists still thought America's ten-year boom, driven in part by its "new economy", could not end in a bust. Yet on January 3rd the Federal Reserve dramatically cut the federal-funds rate by half-a-percentage point, to 6%. The Fed cited various indicators of economic slowdown and said the risks remained weighted towards "economic weakness in the foreseeable future". The implication was clear: the Fed was trying to ward off an imminent recession. And the message was all the starker because it came between the normal Federal Open Market Committee (FOMC) meetings that set monetary policy. The last time the Fed did this was during the financial-market panic in the autumn of 1998.

Why the sudden shift in sentiment? What all those optimistic economists (and indeed the Fed) have belatedly woken up to is that, although America's long expansion has been driven in part by faster productivity growth, it has also created some huge imbalances. Heavy borrowing by households and companies, overvalued share prices, and a large and growing current-account deficit: all these are potential problems. And all, whether singly or in combination, have preceded previous recessions.

Each recent day has brought more signs of a slowdown in the American economy. The bubble in technology shares has deflated. The Nasdaq stockmarket fell by another 7% on the first trading day of the new year—although, after the Fed's cut, it shot back up by 14% (with the Dow following more sedately behind). Credit markets have continued to dry up. Spreads between corporate junk bonds and Treasury bonds have risen to their widest since the recession of 1990-91. Corporate debt defaults are at their highest in a decade, says Moody's Investors Service. Banks have become more cautious about lending.

Before the Fed's move, weak financial markets were giving investors and firms the impression of sudden impoverishment, and that was starting to affect the economy. The National Association of Purchasing Management's index of manufacturing fell in December to its lowest level in ten years. Rising inventories suggest that production will soon have to be cut back further, if companies are not to have warehouses full of unsold goods. Consumer confidence fell in December to its lowest for two years.

Economists at Goldman Sachs have constructed a model of the probability of recession. It is based on the behaviour of several indicators, including inventories and consumer confidence, ahead of previous recessions. In December the model signalled a probability of recession of more than half, up from 35% in November. But the index rose to over 90% before each of the previous four recessions, so the bank has continued to predict a soft landing.

This week's interest-rate cut suggests that the Fed may be gloomier than this. Admittedly, the fall in oil prices, from $34 a barrel last October to around $25 now, has given it more scope to cut rates without risking an inflationary upsurge. But the risk the Fed is taking remains similar to the one it took in the autumn of 1998: that by seeming to act in response to the pressure of market sell-offs, it is reinforcing the notion that it is putting a floor under share prices. That might conceivably reignite not just the stockmarkets but also consumer spending, and with it the economy—as happened in 1998.

Ironically, there is also an opposite risk: that this week's cut in rates, even if it is followed by a further cut at the end of January, might not be enough to ward off recession. Monetary policy usually takes at least a year to have its main impact on demand. Previous recessions have not been stopped by rate cuts. Fiscal policy takes even longer to work. Yet this week President-elect George Bush once again renewed his calls for immediate tax cuts, arguing even that the Fed's move was a show of support for them.

And we all fall down?

Last year, the world's total output grew by almost 5%, its fastest rate for 16 years. Over one-third of that growth came from America, either directly or indirectly through its imports from the rest of the world. So the fear of recession in the world's largest economy is sending jitters around the globe.

Yet an American recession need not guarantee a worldwide slump. Indeed, by the standard definition of recession—two consecutive quarters of declining GDP—there has not been a world recession for half-a-century. A downturn in one part of the world has always been partly offset by growth elsewhere. Even during the oil shock of the mid-1970s, world output continued to expand by almost 2% a year.

Today, despite all the talk of "globalisation", most economies are not notably dependent upon America, whose total imports account for a mere 13% of GDP. An American recession would reduce growth elsewhere, but not by enough to trigger a full-blown global recession on its own. Although economists at HSBC, a bank, expect a recession in America, they still predict world growth of 3.2% and 2.7% in 2001 and 2002, respectively.

A recent study by HSBC explores in more detail the various channels through which recession in America might export trouble to other economies: notably through trade, commodity prices, foreign investment, exchange rates and share prices. Some countries would be more vulnerable than others.

•A recession in America would reduce other countries' exports. Canada, Malaysia and Mexico are vulnerable, with exports to America accounting for between one-quarter and one-third of GDP. A fall in American spending on information technology would also hit South Korea and Taiwan, as they are big exporters of electronic goods. At the other extreme, exports to America from the euro area and from Japan account for only 2-3% of those regions' GDP.

•An American recession would mean a slump in demand for oil and other raw materials. Their prices might fall, hurting commodity producers. Again, Canada, Malaysia and Mexico, all big commodity producers, would be among the hardest-hit, but the euro area and Japan, big commodity importers, would gain.

•A third channel is foreign investment. Europe and Japan are more exposed to America through foreign direct investment than through trade. The sales of American-based affiliates of German companies are five times bigger than Germany's exports to America. Their sales and profits would be squeezed by an American recession.

•For developing countries, the threat from foreign investment is different. If an American recession caused a flight of capital to safety, these countries would see a sharp outflow of money. Countries that need to finance large current-account deficits, notably Brazil and other Latin American economies, would suffer most. By contrast, Asian emerging economies are running current-account surpluses—thanks partly to buoyant exports to America.

•A weaker American economy could mean a weaker dollar. The greenback has already lost 12% against the euro over the past two months. If this trend continues, it will squeeze European manufacturers. Countries that tie their currencies closely to the dollar, such as Argentina and China, stand to gain in competitiveness. But what happens if foreign investors in America suddenly pull their money out? A sharp fall in the dollar might make it harder for the Fed to cut interest rates further.

•The final link is through stockmarkets, as share prices around the globe follow those on Wall Street. Luckily, in most other countries, technology shares are less important than in America. The market capitalisation of IT firms is equivalent to 25% of America's GDP (down from a half last March). That compares with only 2% in Germany, 7% in Japan and 5% in the rest of Asia. Any collapse in the price of technology shares in these places will make a much smaller dent in domestic spending than in America.

Putting all these factors together, HSBC ranks countries according to their overall exposure to an American recession. Mexico and Canada are by far the most vulnerable; Japan and the euro area, the least.

But Japan has its own problems, largely home-grown. Initial figures suggested that GDP grew by an annual rate of 1% in the third quarter of last year, but this is expected to be revised to show a decline. Recent data suggests that fourth-quarter GDP could be flat. A sharp slowdown in America could conceivably tip Japan back into recession. In December Masaru Hayami, governor of the Bank of Japan, gave warning of the risk that deflation could re-emerge. But it has never gone away. Consumer prices have been falling since 1998. The bank's decision to raise interest rates in August has turned out to be the madness most observers then thought it was. Deflation increases the real burden of Japan's massive public-sector debt (120% of GDP and rising); it also discourages consumer spending. Japanese retail sales have been falling for almost four years.

Europe, in contrast, is in the unusual position of being a place of relative stability in a wobbly world. With much lower household or corporate debt than America, and less household wealth tied up in shares, it is less vulnerable to a stockmarket crash. Previously planned tax cuts, being implemented this year, could turn out to be well-timed if America dives into recession. They are likely to sustain the euro area's GDP growth.

Recent economic figures suggest that growth is slowing in the euro area, but more gently than in America. Growth in the euro area is expected to fall to just below 3% this year, down from an estimated 3.4% in 2000. If so, Europe will probably enjoy faster growth than America for the first time in ten years. Such hopes have underpinned the euro's recovery against the dollar over the past month or so.

Europe also has its own troubles, though, notably at the European Central Bank (ECB). The bank has a communications problem, in that markets do not yet know how to read its actions (see article). It is also keen to burnish its anti-inflation credentials. All this points to a risk that the ECB, unlike the Fed, may not ease monetary policy as fast as it should over the coming year.

On balance, though, Europe should show that where America leads, other countries do not have to follow. Any countries that stumble this year will undoubtedly blame America. Yet economic mismanagement at home will often be the guiltier party.

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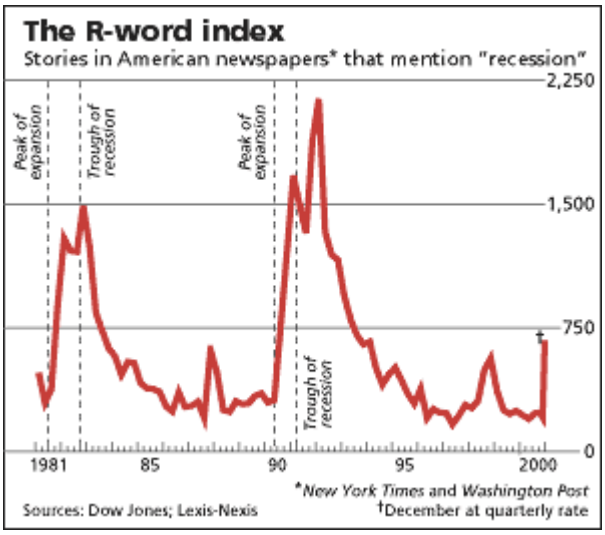
Rrrrrrrrecession?

Jan 4th 2001
From The Economist print edition

A DECADE ago *The Economist* proposed the R-word index: an alternative indicator of economic activity at a time of widespread distrust of official British statistics. Using a computer database, we counted for each quarter how many stories in British newspapers had the word “recession”. The index closely mirrored the economic cycle.



The number of articles using the dreaded R-word rose sharply as the British economy entered recession in 1990. The index then rose steadily during the recession itself, but fell as soon as the recovery got under way. When the index again surged in late 1998, GDP merely stagnated, but industrial production fell. The R-word appears to be a coincident indicator, turning at roughly the same time as output. Yet it is instantly available, unlike official statistics that are always out of date. The latest GDP figures for most economies relate only to the third quarter of 2000.

So how does the index perform in America? Our R-count (from the *New York Times* and the *Washington Post*) again seems to be pretty good at spotting turning-points. It accurately pinpointed the start of recession in 1981 and 1990. It also predicted the end of recession in 1982, but it proved misleading in the early 1990s, when newspapers continued to rant about recession for a year after it officially ended in March 1991—and may thus have cost George Bush senior the 1992 election.

What does the R-count tell us now? It had been fairly flat, at just over 200 articles a quarter from spring 1999 until the autumn of last year. But in the fourth quarter the number of recession stories jumped to 370. In December, the index started to flash red, rising to 670 at a quarterly rate. Over the past 20 years an increase on this scale (if maintained for a full quarter) has always signalled the start of recession.

George Bush junior and his team have recently been accused of undermining confidence by using the R-word too often. Mr Bush might take a tip from Alfred Kahn, one of President Carter’s economic advisers in the 1970s. He, too, was told off for scaring the public by warning that the American economy was on the verge of a deep recession. So in his next speech he substituted the word “banana” for recession. He then discussed the risk of America going into a banana, recalling the Great Banana of the 1930s. Yes, we have no bananas today?

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Economics focus

Don’t say “new economy”

Jan 4th 2001
From The Economist print edition

Wall Street fears that America’s economic slowdown may turn vicious. So, apparently, does Alan Greenspan, who cut interest rates unexpectedly this week. Is it all over for the new economy?

AS REVERSALS in market psychology go, this ranks among the most spectacular in decades. Only yesterday, or so it seems, Wall Street equity analysts almost unanimously acclaimed a new economic paradigm. Out with those old equity-valuation models, out with fusty concerns about earnings (actual or predicted), out with the business cycle; in with network effects, burn rates and global scale. Forget, ugh, prudence: caution is the new recklessness. Nowadays, as one representative member of the breed then put it, the only danger is to be out of the market.

Well, for that shrewd advice (as Nasdaq tottered at around 5,000), many thanks. For all those “buy”, “hold” and “accumulate” recommendations on stocks that cost $100 last year, and now cost $1.50, thanks a lot.

Demonstrating an agility as impressive as these powers of foresight, analysts are now explaining why a tech-stock “adjustment” had been overdue. Apparently the problem is that many of these high-tech companies have no earnings. Why didn’t we think of that? Also, some careless investors—if you can believe this—had supposed that the business cycle was a thing of the past. No wonder the market is volatile, with so much ignorant money around! Still, it is odd how many of those carefully researched “buy” and “hold” recommendations turned to “sell” once prices collapsed—whereas, if the scoundrels who produced them entertained the smallest conviction that their analysis of underlying determinants had ever been correct, recent price falls would have bumped everything from “hold” and above to “insane bargain of a lifetime”.

The surge of pessimism about the American economy in general, and the prospects for high-tech companies in particular, is bad news not just for the gamblers who got burned on Nasdaq—they deserve no sympathy—but for many innocents as well. Recurring spasms of gloom and euphoria tend to be self-fulfilling. America’s record-breaking economic expansion has been fuelled partly by the effect of soaring equity prices on wealth: people have felt richer, and have spent furiously. Falling equity prices will work the same way, except in reverse. If Wall Street, moving abruptly from joy to remorse, convinces itself over the next few months that a hard landing is coming, it stands a fair chance of getting its way.

Alan Greenspan appears to agree, and took preventive measures on January 3rd. So far, notwithstanding weaker manufacturing, as reported the day before, there has been no clear sign from the real economy that the slowdown will in fact become a recession. But suppose it did. Would that bury the new economic paradigm?

The new-economy claim, sensibly stated, is a theory about the medium and longer term, not about fluctuations in the business cycle. Long-term prospects in America and the rest of the world are driven by productivity. As Nasdaq soared, so did the belief that the trend of productivity growth has shifted permanently higher: over the next decade or two, many believed, productivity might grow more than twice as fast as it did in the 25 years to the mid-1990s. If new technologies really could boost growth in productivity so much, they would go far to justify the earlier strength of Wall Street as a whole—though most tech-stock valuations were beyond the pale even on this bold assumption. Then along came the tech-stock crunch. Somehow, this shifted thinking on the long-term question. Many now appear to

believe that the “new economy” was a myth all along.

This pessimistic extreme is as foolish as its optimistic predecessor. A recession, if it happens, will not expose the new economy as a myth. It will show only what should have been obvious anyway—that the cycle has not been abolished. Similarly, slowing investment in high-tech capital will not show that the new economy is pure hype. Such a decline is again likely for purely cyclical reasons. The idea of a new era does not depend on adding to the stock of high-tech capital at the recent phenomenal rate. It depends on continuing growth in the output produced from any given amount of labour and capital. This kind of productivity—with capital and labour, in effect, held constant—is called total factor productivity or multi-factor productivity. It is the true key to a long-term quickening of economic growth.

The new technologies of the past five years may well have boosted growth in multi-factor productivity. Computers, the Internet and modern telecommunications taken together change working methods dramatically, and in ways that generate continuing opportunities for growth. If the new economy proves real, it will be because of this qualitative shift in the potency of capital.

What then does the tech-stock collapse reveal about the long-term quality of recent American investment? Nothing. On the other hand, slowing growth—or a recession, if it happens—will indeed shed light on the issue, albeit in a rather subtle way. Recessions, as noted, happen in any era. But a slowdown will be revealing nonetheless, by making it easier to subtract the cyclical part of productivity growth from the underlying part. This has been difficult so far, bedevilling attempts to measure the all-important trend in multi-factor productivity.

It is certainly conceivable, and not all that unlikely, that slower growth this year, combined with lower high-tech investment and lower earnings for producers of high-tech capital, will coincide with further improvements in multi-factor productivity. Those improvements, if they materialise and can be measured, will almost certainly be too small to impress new-economy zealots who foresaw a doubling or more of long-term growth. But in the real world, a much smaller improvement than that would still deserve to be recognised, regardless of the slowdown, recession or no recession, as a breakthrough.

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About sponsorship

Financial regulation in Japan

In with the old...

Jan 4th 2001 | TOKYO
From The Economist print edition

JAPAN'S new financial regulator faces some stiff tasks when it opens for business on January 6th. For one thing, it will have a bigger mandate. After swallowing up the Financial Reconstruction Commission (FRC), the new Financial Services Agency (FSA, formerly known as the Financial Supervisory Agency) will add the job of cleaning up the country's woebegone banking sector to its current duties as regulator and inspector.

EPA

Hello again

It was supposed to be a fresh start. But in many ways the financial authorities have come full circle since the reconstruction commission and supervisory agency were created in late 1998 to tackle Japan's financial crisis. Two years, five chiefs and two names later, Hakuo Yanagisawa, the FSA's first and most respected leader, returned to the helm last month. Mr Yanagisawa was quick to stress his reformist credentials, by ruling out the possibility that the government might extend, by an extra year, its emergency measures to insure all bank deposits. Few doubt Mr Yanagisawa's experience. During his previous tenure he had the job of overseeing the nationalisation of two failed city banks, as well as their subsequent sale. He was responsible for the injection of public funds into 15 other big banks.

His job will be that much tougher this time around. Although the point of the FRC's demise was to indicate that Japan's financial crisis was over, the banking environment is beginning to look eerily akin to those crisis days of early 1999. Fresh bad loans are popping up as fast as banks can write old ones off. And with Japan's stockmarkets falling back to their lowest levels in a decade, unrealised gains on banks' equity portfolios are once again starting to look like losses, which will hurt their capital bases. Banks' collateral has also been dented by property prices, which have not stopped falling for ten years. Now a growing number of politicians think that a second round of public funds will have to be injected into the banks in March—at a time when over half of the government's ¥70 trillion ($614 billion) safety net for the banks was due to expire.

What may really hamper Mr Yanagisawa's attempts to sort these issues out is that the FSA, even in its newly named incarnation, lacks credibility, having frittered much of it away during his 14-month absence. Mr Yanagisawa's successors were chiefly to blame. One resigned after a bribery scandal. Another quit after suggesting to an audience of bankers that they should come to him if they were faced with an unduly harsh inspection. A third, oddly, faced no such punishment for formally proposing that smaller banks and credit unions, where much rot lies, be examined less rigorously than their bigger counterparts.

Recent regulatory decisions have also suggested that the agency might be losing its appetite for reform. The FSA has dragged its feet on the entry of non-banks into the banking sector. It has prevented non-life insurers (not counting life-insurance subsidiaries) from selling highly profitable cancer and nursing-care policies until July, even though this industry was supposed to be deregulated this month. It has blocked reforms allowing banks to sell life-insurance products. Most disturbing, the FSA has on occasion reverted to an old habit, picked up when it formed part of the finance ministry, of making ad hoc regulatory changes—reinterpreting the law without formally recording its revision.

All this would not matter so much had Mr Yanagisawa the political clout to push through reforms and to rebuild the FSA's credibility. But he is now politically weak. His appointment is seen by some as a stunt orchestrated by the Liberal Democratic Party (LDP) to hide its growing anti-reformist stand. Others think it a reward for Mr Yanagisawa's betrayal of his faction chief, Koichi Kato, who failed to bring down the prime minister late last year.

Whatever the reason, Mr Yanagisawa is ill-equipped to grapple with hardline interventionists, such as Shizuka Kamei, the LDP's powerful policy council chairman, who appears intent on propping up the stockmarket at all costs. Mr Kamei has already asked banks to refrain from unwinding the cross-shareholdings. He has also suggested that public pension-fund money be used to support share prices. With all this to contend with, Mr Yanagisawa and the agency he leads are assured of a bloody year ahead.

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A new game of forfaits

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THE market that is devoted to financing international trade is huge, at about $700 billion a year. It is also opaque, highly fragmented and illiquid—reasons enough, perhaps, why even in the financial world few people pay much attention to it. Yet the founders of the Internet Trade Finance Exchange (ITF), a group of rather intense New Yorkers, have been thinking quite a lot about trade finance. In this age of Internet dreams that get dashed, they plan to hit the jackpot through the transparency and efficiency of a web-based exchange.

Almost half of world trade is “financed”, or transacted with borrowed money. That happens because exporters usually like the certainty that they will be paid for the eventual delivery of their goods, and are willing to accept less than the full value of those goods in return for the reassurance of money in hand. The “forfaiter”—typically a bank or a specialised forfaiting house—then buys the bill of exchange or promissory note written out by the exporter’s customer, but at a discount to its full value. After a predetermined period the forfaiter collects payment (or sometimes not) from the customer; his profit is the discount he got from the exporter. Or the forfaiter may sell the paper on, to another bank, insurance company or hedge fund.

This is the market in trade finance. But most trade-finance assets do not change hands before they mature. Rather, they sit on the balance sheets of the buyers, to the tune of several trillion dollars a year. Web-based exchanges want to bring parts of the active market online. But they also think they can wake this inactive (and potentially lucrative) giant, as exporters market and list their paper for the first time.

The trouble is that trade finance, unlike markets for bonds and equities, lacks common standards.There is no code of market practice, so a great source of inefficiency in the trade-finance market lies with documents: such things as insurance certificates, letters of credit, invoices and bills of exchange. No deal is ever the same, and counterparties differ about what constitutes adequate documentation. That helps explain a relative lack of marketable assets. There is also very little financial research on trade finance. Information on historical prices is scarce, so it is difficult to value assets. Communication between forfaiters and sellers of trade-finance paper tends to be by good old fax and phone.

Hernando Perez, the president of ITF, whose itfex.com exchange started this week, argues that the Internet will do much to exploit the market’s full potential. For an annual membership fee of $5,000, ITF members will be able to bid for assets by online auction. They will be offered a variety of tools to analyse the trade-finance assets on offer, including digital images of the documentation.

Mr Perez is not the first optimist. Three financiers formerly at Deutsche Bank launched the website of LTP, a London-based consultancy, last year. Their first online auction involved the sale of promissory notes issued by a Korean bank, but sold out of the trading portfolio of Bank Austria Creditanstalt International. LTPnow facilitates, on average, only a deal a week: not enough, presumably, to please dreamers.

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India's banks

Living dead

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INDIA'S banking industry is a land of state-owned zombies, shared by a handful of little private banks that attempt to dodge their footfalls. There was a brief stir in this land last month, when one of India's most go-ahead private banks announced that it would swap shares with one of the country's oldest. ICICI Bank and Bank of Madura plan to create India's largest private bank, with hopes of taking on the zombies.

EPA

We won't take reforms sitting down

The planned merger, which awaits the regulator's nod, will create a bank of about the size of a typical Indian state bank. It will have 160 billion rupees ($3.4 billion) in assets and 2.7m customers. ICICI Bank, which is listed on the New York Stock Exchange, is one of nine private banks that were set up in the mid-1990s to showcase India's financial reforms. Urban sophisticates are eager users of these banks' services, which are often streets ahead of those of their state counterparts. As a result, private-bank assets grew by 52% in the latest fiscal year. Rajiv Gupta of DSP Merrill Lynch, which helped to clinch the merger of ICICI Bank and Bank of Madura, argues that mergers are the surest and quickest way for India's private banks to gain size and reach. For instance, ICICI Bank, which wears the trousers in this deal, will get 1.2m customers from Bank of Madura, and 263 branches: a feat of growth that would otherwise have taken five years. These branches give access to cheap deposits. ICICI Bank, like other private banks, gets about 15 licences for new branches each year: many fewer than it requires.

ICICI Bank's challenge, however, will be to marry the culture of a young, tech-savvy metropolitan bank with that of a 57-year-old matron set in her ways. Bank of Madura's employees are poorly skilled and averse to change. Meanwhile, the bank's ratio of non-performing assets, at 4.6% of its total assets, is three times the level at ICICI Bank.

Yet the merger makes sense, in an industry dominated by the 27 big state banks, which together own four-fifths of bank assets and pocket 70% of the profits. The private banks are as numerous as the state ones, but most are small community banks with little access to technology or capital. Their shares trade at a fraction of their book value. They must merge soon, or perish. Worries about the future of these banks, says Satyapal Talwar, deputy governor of the Reserve Bank of India, explain why the central bank is reluctant to hand out new banking licences.

Hoshang Sinor, the chief executive of ICICI Bank, insists that his bank's planned merger later this year with its parent, ICICI, a former state development bank, will put the group in the league of State Bank of India, the country's biggest bank. But given the poor quality of most small banks' assets and management, who will be interested in them?

Foreign banks, such as Citigroup, HSBC or ABN Amro, which are looking at India's retail-banking market, might conceivably consider both private and state-owned banks. Yet current rules allow foreigners to own no more than 20% of an Indian bank. Chase Manhattan has an alliance with HDFC Bank. ING Barings has a stake in Vysya, and Singapore's Keppel Bank owns one-fifth of Centurion. On a visit to India in early November, Robert Rubin, chairman of Citigroup's executive committee and a former American treasury secretary, said that Citi might consider buying a local bank, if regulations allowed it to.

Last month the government tried to rewrite the rules. It introduced a bill intended to cut the government's stake in public-sector banks from 51% to 33%. The bill sought to allow the free transfer of shares held by the government, so as to encourage acquisitions, mergers and financial restructurings.

And once the bill was passed, the government planned to set up a financial restructuring authority to take over the management of weak banks.

These are strong reform measures by Indian standards. The opposition Congress party vowed to oppose the bill “tooth and nail”, forgetting that when it was in power in 1994, it was Congress that first cut the government’s stake in the banks. There is plenty of popular hostility to privatisation. On December 21st the bank unions went on strike, causing chaos; even the staff at private banks joined in. The bill has now been kicked into a standing committee, parliament’s closest thing to oblivion.

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Extra sensory perception

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Vibrations in the ground are a poorly understood but probably widespread means of communication between animals

IN 1975, tens of thousands of people were evacuated from Haicheng, in China, a few hours before a large earthquake struck the city. Western scientists regard earthquakes as unpredictable, and pre-emptive evacuations such as this as therefore impossible. What gave the game away, according to the Chinese authorities, was the strange behaviour of animals such as rats, snakes, birds, cows and horses.

It could have been a lucky coincidence. It seems unlikely that these animals could have detected seismic "pre-shocks" that were missed by the sensitive vibration-detecting equipment that clutters the world's earthquake laboratories. But it is possible. And the fact that many animal species behave strangely before other natural events, such as storms, and that they have the ability to detect others of their species at distances which the familiar human senses could not manage, is well established. Such observations have led some to suggest that these animals have a kind of extra-sensory perception. What is more likely, though, is that they have an extra sense—a form of perception that people lack. The best guess is that they can feel and understand vibrations that are transmitted through the ground.

Good vibrations

Almost all the research done into animal signalling has been on sight, hearing and smell, because these are senses that people possess. Humans have no sense organs designed specifically to detect terrestrial vibrations. But, according to researchers who have been meeting in Chicago at a symposium of the Society for Integrative and Comparative Biology, this anthropocentric approach has meant that interactions via vibrations of the ground (a means of communication known as seismic signalling) have been almost entirely overlooked. These researchers believe that such signals are far more common than biologists had realised—and that they could explain a lot of otherwise inexplicable features of animal behaviour.

Until recently, the only large mammal known to produce seismic signals was the elephant seal, a species whose notoriously aggressive bulls slug it out on beaches around the world for possession of harems of females. But Caitlin O'Connell-Rodwell of Stanford University, who is one of the speakers at the symposium, suspects that a number of large terrestrial mammals, including rhinos, lions and elephants, also use vibration as a means of communication. At any rate they produce loud noises that are transmitted through both the ground and the air—and that can travel farther in the first than in the second. Elephants, according to Dr O'Connell-Rodwell, can transmit signals through the ground this way for distances of as much as 50km when they trumpet, make mock charges or stomp their feet.

Seismic vibrations do not qualify as signals unless they are being received and understood. But it has already been shown that some smaller animals, such as frogs and crickets, pick up information from the seismic part of what everybody had assumed to be simple acoustic (ie, airborne) signals. One way this was found out was by vibrating whole frogs while recording the electrical impulses from particular cells in their inner ears that were suspected of responding to seismic stimulation. Frogs, of course, are easily manipulated. Doing something similar to an elephant requires a higher degree of co-operation from the subject. Dr O'Connell-Rodwell is, however, trying. She is attempting to train several tame elephants to respond to such signals by shutting them inside a gently vibrating truck.

Even without this evidence, it seems likely that elephants do make use of seismic communication. They have specialised cells that are vibrationally sensitive in their trunks. And vibrations transmitted through their skeletons may also be picked up by their exceptionally large middle-ear bones.

A seismic sense could help to explain certain types of elephant behaviour. One is an apparent ability to

detect thunderstorms well beyond the range that the sound of a storm can carry. Another is the foot-lifting that many elephants display prior to the arrival of another herd. Rather than scanning the horizon with their ears, elephants tend to freeze their posture and raise and lower a single foot. This probably helps them to work out from which direction the vibrations are travelling—rather as a person might stick a finger first in one ear and then in the other to work out the direction that a sound is coming from.

According to Peggy Hill, a biologist from the University of Tulsa who organised the symposium, work on seismic signalling is blossoming. Part of the reason is that the equipment needed to detect seismic vibrations (and thus short-circuit human sensory inadequacies) has become cheap. Geophones—which transform vibrations into electrical signals—were once military technology. They were developed by the American army to detect footsteps during the Vietnam war. Now, they can be picked up for as little as $40.

In the past decade many insects, spiders, scorpions, amphibians, reptiles and rodents, as well as large mammals, have been shown to use vibrations for purposes as diverse as territorial defence, mate location and prey detection. Lions, for example, have vibration detectors in their paws and probably use them in the same way as scorpions use their vibration detectors—to locate meals.

Dr Hill herself spent years trying to work out how prairie mole crickets, a highly territorial species of burrowing insect, manage to space themselves out underground. After many failed attempts to provoke a reaction by playing recordings of cricket song to them, she realised that they were actually more interested in her own footfalls than in the airborne music of their fellow crickets. This suggests that it is the seismic component of the song that the insects are picking up and using to distribute themselves.

Whether any of this really has implications for such things as earthquake prediction is, of course, highly speculative. But it is a salutary reminder that the limitations of human senses can cause even competent scientists to overlook obvious lines of enquiry. Absence of evidence, it should always be remembered, is not evidence of absence.

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A tragic muse

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WILLIAM SHAKESPEARE described old age as “second childishness”—sans teeth, sans eyes, sans taste. In the case of taste he may, musically speaking, have been even more perceptive than he realised. A paper in *Neurology* by Giovanni Frisoni and his colleagues at the National Centre for Research and Care of Alzheimer’s Disease in Brescia, Italy, shows that one form of senile dementia can affect musical desires in ways that suggest a regression, if not to infancy, then at least to a patient’s teens.

Frontotemporal dementia is caused, as its name suggests, by damage to the front and sides of the brain. These regions are concerned with speech, and with such “higher” functions as abstract thinking and judgment. Frontotemporal damage therefore produces different symptoms from the loss of memory associated with Alzheimer’s disease, a more familiar dementia that affects the hippocampus and amygdala in the middle of the brain. Frontotemporal dementia is also rarer than Alzheimer’s. In the past five years the centre in Brescia has treated some 1,500 Alzheimer’s patients; it has seen only 46 with frontotemporal dementia.

Two of those patients intrigued Dr Frisoni. One was a 68-year-old lawyer, the other a 73-year-old housewife. Both had undamaged memories, but displayed the sorts of defect associated with frontotemporal dementia—a diagnosis that was confirmed by brain scanning.

About two years after he was first diagnosed the lawyer, once a classical music lover who referred to pop music as “mere noise”, started listening to the Italian pop band “883”. As his command of language and his emotional attachments to friends and family deteriorated, he continued to listen to the band at full volume for many hours a day. The housewife had not even had the lawyer’s love of classical music, having never enjoyed music of any sort in the past. But about a year after her diagnosis she became very interested in the songs that her 11-year-old granddaughter was listening to.

This kind of change in musical taste was not seen in any of the Alzheimer’s patients, and thus appears to be specific to those with frontotemporal dementia. And other studies have remarked on how frontotemporal-dementia patients sometimes gain new talents. Five sufferers who developed artistic abilities are known. And in another lapse of musical taste, one woman with the disease suddenly started composing and singing country and western songs.

Dr Frisoni speculates that the illness is causing people to develop a new attitude towards novel experiences. Previous studies of novelty-seeking behaviour suggest that it is managed by the brain’s right frontal lobe. A predominance of the right over the left frontal lobe, caused by damage to the latter, might thus lead to a quest for new experience. Alternatively, the damage may have affected some specific neural circuit that is needed to appreciate certain kinds of music. Whether that is a gain or a loss is a different matter. As Dr Frisoni puts it in his article, *de gustibus non disputandum est*. Or, in plainer words, there is no accounting for taste.

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Machine vision

Seeing is believing

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AS ANY parent will tell you, teaching a child how to tell the difference between types of object of the same class—animals, say, or letters of the alphabet—is a long job. A good way to speed it up is to point out specific, unique features. Squirrels have bushy tails. Zebra have stripes. Dogs have barks. And so on. Use the right feature and identification is straightforward. But how do you choose that feature in the first place? And what if you want to distinguish between things that are more abstract than animals?

These are questions that neural-network researchers have been grappling with for years. Neural networks are computer programs that are based loosely on animals' nervous systems. As such, they are able to learn from experience. But at the moment, the only way to teach them about the world is by what is known as supervised learning, in which the computer is shown both a "picture"—ie, a set of data—and a label telling it what the picture represents. This is the computer equivalent of taking a child by the hand, pointing at objects, and saying their names. Eventually, the network (or the child) learns to distinguish one picture from another by inferring which features differentiate between them. But it is a slow process.

It would be nice (and probably profitable) to be able to do things the usual human way instead—doing the equivalent of telling the network to recognise squirrels from their bushy tails. Unfortunately, it is rarely obvious to a human just what features a neural network will find useful when making such identifications. But Geoff Hinton, at University College London, thinks he has come up with a solution. Instead of asking a person to choose the features, he is asking something that should know the answer—another neural network.

Neural networks consist, at least conceptually, of three layers of "virtual" nerve cells, or neurons. There is an input layer, an output layer, and sandwiched between them a so-called hidden layer. Neurons in the hidden layer are linked to those in the input and output layers by connections of various strengths (known in the jargon as "weights"). These weights change every time the network tries to learn something; and the flow of data to the output layer in response to a particular input changes as well. After a sufficient number of attempts the pattern of weights stabilises and a particular sort of input (say an image of the digit 2, translated into electrons by a digital camera) reliably produces a particular sort of output. When that output is seen, the operator knows that the network has seen a 2. It has thus learnt to recognise that digit.

In a traditional network, this process is "holistic", with every part of the hidden layer responding to signals from every part of the image. One of the things that is different about Dr Hinton's machine is that each neuron in the hidden layer becomes an "expert", responding only to the presence of a particular sort of feature. That is similar to the way the human visual system works, with particular clusters of nerve cells in the brain adapted to respond to, say, horizontal lines, or to lines that run on diagonals.

The other difference is that his network is "generative". Instead of producing a label as an answer ("this image is a two"), it generates, if it has learnt correctly, an image of the digit "2". This is based on a quintessence of twoness that the machine has come to believe in—and that, in turn, shows it has extracted the features necessary to recognise a "2" in the same way that a child recognises a squirrel from its tail.

Dr Hinton's experiments have focused on hand-written letters and numbers (handwriting recognition being a crucial, and so-far unsolved, problem in machine vision). As predicted, his machine can generate the number it has learnt to believe in—the digit 2 for instance—very well. But when confronted with a different digit, such as 3, the collective wisdom of the experts produces a version of that 3 which looks very much like a 2. The machine has learnt what it expects to see; so it sees it, regardless of the truth.

This replication of a human failing (seeing what is expected is the basis of many conjuring tricks) is probably not an accident. Since Dr Hinton's network shares features with the human visual system, it might be expected to share its failings, too. And that, in itself, might be valuable knowledge. It is a lot easier to experiment with computer programs than with human brains. If Dr Hinton's software can yield insights into what is going on in human "wetware", experiments which are carried out on real brains are likely to be a lot more focused.

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Network collaborations

The big picture

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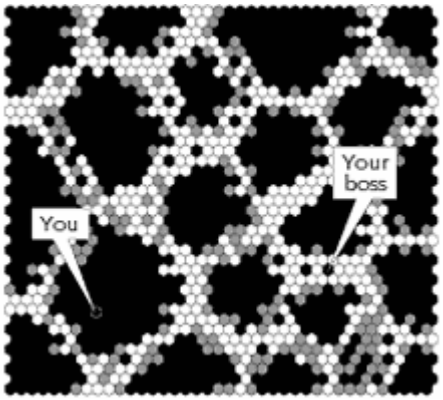
THE rivers of electronic information gushing around the world's companies ought to reveal a lot about how people communicate within these organisations. But until now the very volume of data involved has defeated attempts to analyse it. A group of Finnish academic physicists has, however, developed some nifty software to help with the task. And, judging by the startled reactions of some of the managers who have seen the results, it could be of much more than purely academic interest.

The software has been created by Ari-Pekka Hameri of the Helsinki Institute of Physics and his colleagues, and will be marketed by a newly formed company called Single Source. It was originally devised as part of a project-management tool for CERN, a particle-physics laboratory near Geneva, where Dr Hameri has been stationed for the past few years. Single Source's software logs all the information that is exchanged by engineers and managers in some of the big engineering projects that CERN runs, analyses it both by type of information involved and by the identities of sender and receiver, and then sifts key features out of the result.



The main sifting technique employed is called a self-organising map. This projects the convoluted network of different types of communication between individuals on to a plane (see diagram). It does so by repeatedly adjusting the position of the individuals in the map, in order to minimise the distance between those whose communications have most in common. The trick behind this process is to find a mathematical formula that measures these distances efficiently, since the types of communication can be very different in nature. Dark islands on the map show clusters of individuals who are working strongly together. Weak bridges of communication link some of the islands. And deep channels of silence isolate certain islands entirely.

In some projects, this may be the intended structure, but often the map reveals unexpected features. One of these, which challenges an assumption widely held by experts in the field, is the discovery that in most cases the pattern of interaction does not change significantly during a project's life-cycle, even though the different stages of the project—conceptualisation, design, construction and so on—would seem to demand such change. Once particular lines of communication have been established, people seem loth to abandon them.

On a finer scale, self-organising maps can show how particular individuals use a given file of data, such as an engineering drawing, during the course of a project. Sometimes the results are predictable. It is, for example, easy to distinguish between a project engineer, who downloads drawings to build the required parts, and a project administrator, who views those drawings more sporadically in order to chart progress, but does not actually download them on to his own computer. But significant differences turn up between people with much the same sort of responsibility, for example between the creative types who burst with ideas, and the disciplined ones who dot every "i" and cross every "t". These revealing differences in working styles can allow managers to assemble more effective teams by playing on people's strengths and trying to ameliorate their weaknesses.

The ability to extract an accurate picture of the way that teams and individuals behave in an organisation from their electronic communications works not only for CERN. Commercial organisations such as Wartsila, a leading producer of diesel power plants, have already begun using the software. And Dr Hameri is optimistic that the information that Single Source provides could prove useful for planning and tracking even more complex phenomena, such as major organisational changes. That could help managers to substitute the gut feelings that they often have to rely on when making such changes with

something a bit more objective.

Not all reactions have been positive, of course. Some people have chafed at the idea that they are constantly being monitored by an electronic Big Brother. That is a sensitive ethical issue, but Dr Hameri's view, perhaps a typically egalitarian Nordic one, is that it does not matter as long as the results are openly available within the whole organisation. After all, it could be healthy for managers to be confronted with a map of their own communication islands—and the embarrassingly large oceans of silence that sometimes separate them from their underlings.

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I do, I can, I will

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Serial monogamy may be replacing marriage-for-life. But divorce rarely makes everyone happy. Four new books look at an institution under fire

FOR most of the past two millennia, western society has had at its core a contract binding together a man and a woman for life. Now the contract is falling apart. Men and women still want to enter it. But, in barely 50 years, cohabitation before marriage has become the norm in many countries; 40% of American children are born out of wedlock; and the assumption that marriage is for life has vanished. Two-fifths of American first marriages (and an even higher proportion of second and subsequent ones) are now likely to end in divorce.

None of these authors focuses on why marriage, having endured so long, is now in such a mess. Marilyn Yalom, whose new book, "A History of the Wife", appears in February, probably gets closest when she points out that the old "quid pro quo" version of marriage, where men supported their wives financially and women in exchange cared for them and their children, has broken down. Meanwhile, the new marital model of equal sharing at home and at work has not yet "been fully realised".

Certainly there is a suspiciously close correlation between the rise in women's employment and their earning power relative to that of men on the one hand, and the rise in marital breakdown on the other. Many women no longer need men to support them and their children financially; in addition, once out in the workplace, women whose marriages are not happy may find new and preferable partners. Going out to work may not increase conjugal unhappiness, but it certainly gives wives an easier way out.

As that escape route began to open up in the middle of the 20th century, it seemed to promise bliss to those wives whose marriages were torture. Nancy Cott's study of marriage as a public institution, "Public Vows: A History of Marriage and the Nation", is full of reminders of how until very recently the law subjugated women to their husbands. After Princess Diana's mother, the former Viscountess Althorp, left her husband she promptly lost custody of her children. Ms Cott, a history professor at Yale, quotes an essayist of the 1850s observing approvingly that a husband "represents the wife in the political and civil order." Less than a century ago, the Supreme Court could still define a husband's right to exclusive sexual intercourse with his wife "a right of the highest kind, upon which the whole social order rests." The exemption from the courts of marital rape began to disappear only in 1984.

Even now, argues Ms Yalom, a professor at the Institute for Women and Gender at Stanford University, men get a better deal from marriage. On a whole range of measures of mental health—suicide, depression, nervous breakdowns—single men do worse than married men, but single women do better than their married sisters. Husbands, it is often reported, like being married more than their wives do. The burden of combining child care and family obligations with employment falls mainly on women.

It may be unsurprising that many women, given the financial and legal freedom to escape from marriage, head for the divorce courts. But it is not clear that divorce makes people happier. Hence the tub-thumping "Case for Marriage" made by Linda Waite, a professor of sociology at the University of California, Davis, and Maggie Gallagher, director of the Marriage Project at the Institute of American Values. Together they

A HISTORY OF THE WIFE
By Marilyn Yalom

HarperCollins; 480 pages; $27.50.

Buy it at
Amazon.com
Amazon.co.uk

PUBLIC VOWS: A HISTORY OF MARRIAGE AND THE NATION
By Nancy F. Cott

Harvard University Press; 304 pages; $27.95 and £19.50.

Buy it at
Amazon.com
Amazon.co.uk

THE CASE FOR MARRIAGE: WHY MARRIED PEOPLE ARE HAPPIER, HEALTHIER, AND BETTER OFF FINANCIALLY
By Maggie Gallagher and Linda J. Waite

Doubleday; 272 pages; $24.95.

Buy it at
Amazon.com
Amazon.co.uk

THE UNEXPECTED LEGACY OF DIVORCE: A 25-YEAR LANDMARK STUDY
By Judith S. Wallerstein, Sandra Blakeslee and Julia M. Lewis

Doubleday; 272 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

sweep up a host of studies which suggest that marriage increases health and happiness for both sexes. Some of those gains seem to come from the sheer economic efficiency of marriage: two people can save money by living in one household and specialising in (or even sharing) the work of supporting it. “Just getting married”, say the authors enticingly, “can boost your standard of living by about a third.” If marriage brings benefits to both men and women, it is even better for children. With the rise in the divorce rate has come a sobering realisation: the interests of individual family members may differ. What makes quarrelling mothers and fathers happier may not do quite the same for their children.

Judith Wallerstein, a senior lecturer at the University of California, Berkeley, and author of “The Unexpected Legacy of Divorce: A 25-Year Landmark Study”, has probably done more than anyone to bring this uncomfortable truth to the attention of America’s separating spouses. Her somewhat anecdotal research methods—a small longitudinal sample, coupled with many stories from her counselling work—make many other academics squirm. But a growing body of evidence suggests that her basic points are right: children of divorce are more likely to have problems at school, to drop out of education and to have difficult relationships than those who lose a parent through death or whose parents’ marriage survives.

If, as seems possible, children are the victims of the liberation of women, how should governments respond? By returning to the tax regimes that favour married couples? By making divorce harder to obtain? Ms Cott points out that marriage is not merely a private arrangement between two people; it requires public affirmation, and carries distinct public rights and benefits. Over the years, governments have whittled away these special rights, extending them to other relationships. Some campaigners, such as Ms Waite and Ms Gallagher, would like to see that trend reversed, to reinforce the special private advantages they see arising from marriage. They may in time succeed. But whatever the impact of divorce on children, no government is likely to deprive women of the freedoms they have won, in marriage and at work, over the past 50 years.

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20th-century history

For whom the bell tolled

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EVERY schoolboy knows that the seeds of the second world war were sown in the first. The temptation to see the two conflicts, in Europe at least, as elements of a "Thirty Years' War" becomes more compelling the more they recede into the past. This bold volume sets out to demonstrate that the common experiences of both wars allow the historian to relate the two in a very direct sense. More than 30 historians have been invited to reflect on these connections by discussing the wars as a unity, linked ultimately by the fact that the second war was led by men who had fought in the first, and whose sons saw combat in the second.

THE GREAT WORLD WAR: 1914-45
Edited by Peter Liddle, Ian Whitehead and John Bourne

HarperCollins; 624 pages; £24.99

Buy it at Amazon.co.uk

The central thesis may be open to debate, yet this is a welcome enterprise. Too often, historians of the second world war have seen their subject as set apart from other wars by its sheer geographical extent, its special barbarisms, its claim to be the only war to earn the unenviable sobriquet of "total war". The extent to which the behaviour of European wartime leaders between 1939 and 1945 was coloured by their personal experiences in the first world war can sometimes be overplayed—did Hitler really avoid gas warfare because he himself had once been the victim of gassing?—but it is more often almost entirely overlooked. Churchill was an enthusiast for bombing as a young First Lord of the Admiralty in 1915; he was an enthusiast for bombing once again in 1940. Can it be mere accident that Churchill, who saw action in Egypt in the 1890s and took the can for the Dardanelles campaign in the first world war, placed so much emphasis on defending North Africa and argued with his allies for yet another "soft underbelly" approach in the Mediterranean?

The answers to such questions can often be little more than speculative. The editors of "The Great World War" have tried to put more solid flesh on the idea that the links between the two conflicts are tangible and important. The outcome is, to say the least, uneven. This is partly a consequence of the decision to cover the ground with so many short essays, rather than longer, more reflective chapters. The result is more a compendium than a unified history. Little links the chosen subjects together except the broad divisions "front line experience", "leadership" and "occupation" into which the contributions are divided. The chief problem, however, is a conceptual one. There is no clear framework in which the comparisons can be set—this might have been a social setting, or the changing international framework, or the evolving tactics of modern war; and so on. But instead the essays all too often simply describe first one war, then the second, or list the comparisons and differences with a wooden efficiency. The general reader will probably find the collection incoherent.

This is a pity, because there is much of interest here. The most arresting piece, by Mark Levene, contrasts the genocide of the Armenians in 1915 with the Romanian slaughter of Jews in 1941-42. These were not the industrial mass killings of the German Holocaust; they were wild, savage, blood-soaked programmes of annihilation, more akin to Rwanda or Cambodia than Auschwitz, reflecting in both cases a popular, exterminatory racism. The study of Allied POWs by Peter Liddle and Paul Mackenzie is richly illuminated by the testimony of survivors ("such a lump out of a short life", one of them reflects). John Erickson makes something of the comparison between the great tsarist offensive in 1916 under Brusilov and Zhukov's operation in 1944 to clear the Germans from Belarus, showing in the process that the armies of both wars were not the primitive, poorly led, forces often depicted in western literature. Joanna Burke is good on death in war—a universal feature of every conflict.

On the issue of leadership in war there is a greater problem. Comparing Lloyd George with Churchill, or Marshall Foch with General Eisenhower, is not very helpful, effectively though it is done here. What emerges is not a sense of a single era of war, but of two very distinct conflicts, the products of very different circumstances, in which the pressures and opportunities facing generals and prime ministers are too diverse to make much comparative sense. Gary Sheffield's study of British generalship works better because it focuses on the system that fostered the military elite, and the ways in which that system responded to the experience of the first world war. There are broader issues concerning the ways that

societies make war, the appropriateness of particular political systems for mass conflict and the efforts to mobilise technical and intellectual resources, which might well have provided a more coherent frame through which to test the hypothesis that the two wars should be treated as one.

Despite the skills of its very scholarly contributors, in the end this book does not persuade. Of course the experience of the first world war profoundly influenced a whole generation of soldiers and civilians. The very idea of “total war” was born then and dominated expectations of the next conflict. The unstable international order was the product of the collapse of the great dynastic empires in 1918-19 and a dysfunctional world economy. The pessimistic post-war culture, with its morbid imagery and nihilistic values, predisposed many Europeans to accept that some second, even greater war might arise. But the real problem with trying to treat the wars as part of a single great conflict is simply that the second was not an inevitable or even necessary consequence of the first. The turning point was the decision taken on January 30th 1933 when Field Marshal Hindenburg, hero of the Great War, called Adolf Hitler, villain of the next, to be German Chancellor. Here, by chance, the war that had passed and the war in the making were briefly united.

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20th-century art

Looking at absolutes

Jan 4th 2001
From The Economist print edition

A remarkable curator, painter and critic talks to *The Economist* about a forthcoming big art show, his life in painting and his latest book

"DO YOU want to see my show?" John Golding asks. "It's there in that plastic box," he says, gesturing to what looks, from across the room, like a set of index cards. We are used to seeing words replace paintings on gallery walls. But there is nothing textual or conceptual about the big show by two of the greatest 20th-century masters that Mr Golding is organising for London, Paris and New York in 2002-03.

With pride and pleasure, he flips out pairs of colour reproductions on to the kitchen table. Picasso, Matisse. Matisse, Picasso. The frets of a guitar by the one echo the slats of a window shutter by the other. The curves of a Matisse cut-out follow, as if in homage, the pose of a Picasso nude painted years before. Soon the entire table end is covered by ravishing optical twins. "So often these two are treated as complete opposites," he explains. "But just look what they took from each other."

In talking to Mr Golding over a good lunch at his home in west London, the word "look" comes up a lot. It sounds odd to have to say this. As an art historian, teacher, curator and painter, Mr Golding is one of the grand figures of modern art in Britain. Isn't looking his thing? Well, yes. But with art nowadays the eyes do not always have it: texts, contexts and theories often jostle visual experience aside. Not for Mr Golding, however. When painting or reflecting on painting, he is above all a looker. "You're not seeing with your eyes," he recently teased a fellow curator.

Not that Mr Golding has an innocent eye. He is a scholar steeped in the history and theories of 20th-century painting. His advice is sought at London's Tate Gallery (where he was a trustee) and at the Royal Academy, where in 1997 he curated a memorable Braque show. He taught at London's Courtauld Institute and Royal College of Art, as well as at Cambridge University. His students come up frequently as he talks. Many are now names themselves: T.J. Clark, for example, who led the turn to a more political art history in the 1970s; John Elderfield of the Museum of Modern Art in New York and Elizabeth Cowling of the Tate, two curators working with Mr Golding (in a three-country team of six) on the Matisse-Picasso show.

There are few aspects of modern painting Mr Golding has not shed light on. His "Cubism" (1959) is a standard work. "Visions of the Modern" (1994) contains essays on Matisse, Cubism, Dada, surrealism and post-war American art. The six chapters that make up his most recent book, "Paths to the Absolute" (Princeton University Press, $60; Thames & Hudson, £36), an historical study of abstract art, were given as the Mellon Lectures at the National Gallery in Washington, DC four years ago. Unlike many commentators on modern art, Mr Golding writes in a sober, jargon-free manner that is nevertheless alive to ideas. His even-handed generosity towards the artists he discusses is relieved by droll humour, a feeling for their quirks and the occasional, unexpected barb.

Not long ago it was common to write about modern art, particularly abstract art, as if the work, but not the painter, existed. This is not Mr Golding's way. "I can't get interested in the work without getting interested in the artist," he says. To take Mr Golding himself, the high-keyed colours of his work owe a lot to his youth in sunny Mexico. He was born 71 years ago. His father was an English insurance broker who came to Mexico after the first world war. His mother, a music teacher, was from an English family—"raffish, up and down", he calls it—that had been in Mexico since the 18th century.

As a teenager, he was taken up by the European surrealists who had congregated in Mexico city, very much as an expatriate clique that did not bother to learn Spanish. He loved the work of the Mexican muralists, particularly Jose Clemente Orozco, but they were, he found, national-minded and tended not to mix with foreigners. At 13, his parents sent him to school in Canada, whence he won a scholarship to

the University of Toronto. In the late 1940s, New York's art scene beckoned to the young student: "Like so many people," he says, "I got my visual education at the MoMA."

In its relatively short lifetime, abstract art has been illuminated (and obscured) by two influential critical attitudes. One was to stress (and overstress) its purely formal properties. This was the ruling theory of the 1950s and 1960s. In reaction, it was soon posited that abstract work had meaning, but as part of a code or system of signs. On either score, actual artists and their intentions somehow dropped away. Perhaps because Mr Golding is an abstract painter himself, he avoids these extremes. "The body", he has said, "is always there in my work."

In "Paths to the Absolute", he argues that the best abstract art is about something and that its meaning comes partly from the artist. The modernists he discusses were drenched in ideas, especially of better or hidden worlds. His chosen seven are three pioneers: Piet Mondrian, Kasimir Malevich and Wassily Kandinsky; and four mid-century Americans: Jackson Pollock, Barnett Newman, Clyfford Still and Mark Rothko.

All get roughly equal attention, with a wealth of insight into their life and thinking. But Mr Golding has his preferences. Of the pioneers, he likes Kandinsky least, Mondrian most, and feels greatest affection for Malevich. Of his Americans, he says that Still most influenced his own work and that he feels strongest kinship with Newman, the most intellectual of the four. "If the time'd been right," he says, "we could've been friends."

A third attitude to abstraction, common now, is an over-and-done-with acceptance that tips into indifference or neglect. In admitting abstraction's costs, Mr Golding accepts that it can leave practitioners with nowhere to go. Is abstract art, then, still alive? "Yes," Mr Golding replies with a dry laugh, well aware it is not the latest fashion, "and possibly facing a comeback." Is his questioner nevertheless right to detect in him a freer, less thoughtful enthusiasm for Matisse and Picasso than for his cherished abstractionists? Not really. "Possibly those two are the greatest 20th-century painters. But no, I don't feel those are real distinctions." How fortunate we all are, Mr Golding seems to be saying, not to have to make the choice.

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Computer games

Counter-culture

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THE computer games industry has much in common with the movie business. Sales of games, at $20 billion a year worldwide, equal global box-office takings. Both games and films come in a baffling variety of genres, many of which are incomprehensible to outsiders. And, every now and then, a low-budget cult classic is plucked from obscurity and put on general release. That is what has happened to “Counter-Strike”, the Internet’s most popular “first person” shoot’em-up action game.

The first-person genre was originally made popular by “Doom”, which is now a classic. Unlike games in which players view the action from above, first-person games offer a fully realised three-dimensional landscape seen from a first-person perspective—so that as you move around, you see the world along the barrel of your gun.

What makes such games particularly addictive is the opportunity to play against others over the Internet. The most popular multiplayer scenario is called a “deathmatch”; at any one time there are tens of thousands of machines around the world hosting round-the-clock deathmatches. Popular games with a deathmatch mode include “Quake III”, “Unreal Tournament”, and “Half-Life”. But just as one Hollywood action movie is much like another, there is little difference between these games, which vary only in the complexity of their graphics and the choice of weapons available. “Counter-Strike” is different, and it is these differences that explain its popularity.

For a start, “Counter-Strike” is inherently team-based, pitting a gang of terrorists with a particular aim (bombing a target, assassinating someone, guarding hostages) against a team of counter-terrorists whose mission is to stop them within a five-minute time limit. Individual players who charge ahead of their teams do not last long. Strategy and co-operation with the other members of the team assume vital significance.

Among the many features of “Counter-Strike” is that players who are killed do not instantly come back to life. Instead, they must sit out for the rest of the round. During this time they can fly around the game world, passing through walls like ghosts, and observing the action. They can also exchange text messages with other dead players, but they cannot communicate with players who are still alive (for whom they would otherwise be able to act as spies).

In other words, once you are dead, you are out until the next round. This rule, combined with the fact that most of the weapons in “Counter-Strike” can kill with a single well-aimed shot, encourages players to take their mortality (within the game, at least) seriously, and play far more cautiously.

The weapons in “Counter-Strike” are also unusual, in that they are realistic simulations of real weapons used by terrorists and counter-terrorists. As well as being capable of killing an adversary with a single shot to the head (unlike the weapons in most shoot’em-ups) they have realistic recoil, and take time to reload. Players are only allowed to carry a knife, a handgun and a single large weapon (such as a sniper rifle or shotgun), in contrast to other games, in which it is possible to carry an entire arsenal around, and make an instant switch between weapons. Furthermore, players cannot simply select any weapon they like at the beginning of each round, but must buy the weapons using credits they amass during play.

The result is a finely balanced game that rewards skill, stealth and caution, and punishes those who go in with all guns blazing. “Counter-Strike” is also a surprisingly social game. While the last few players battle it out at the end of a round, everyone else watches and chats.

Also unusual is the way “Counter-Strike” was created, distributed and tested. It is, in fact, an add-on modification (or “mod”) for a commercially produced game called “Half-Life”, a copy of which is required to play it. The mod was written by a small team of enthusiasts, led by a programmer known as Gooseman, and made freely available to anyone who wanted it over the Internet. The hundreds of thousands of people who have been playing “Counter-Strike” over the past couple of years have thus doubled as software testers. Only last November was the game declared finished. But such is its popularity that Valve Software, the publisher of “Half-Life”, has taken the unprecedented step of releasing a special “Counter-Strike” version of the game as a separate product. The mod has, in other words, been officially recognised as a game in its own right. But perhaps what is most surprising about “Counter-Strike” is that it challenges the notion that all people want from online multiplayer computer games is mindless violence. In fact, it seems they want their violence in a more cerebral form entirely.

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New English fiction

Cloak and secateurs

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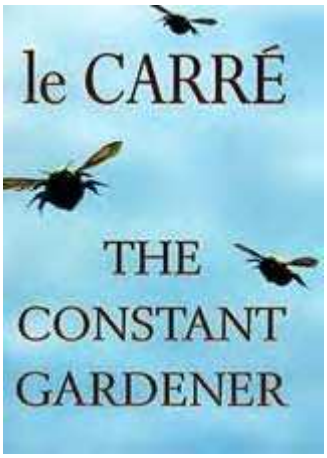
THE CONSTANT GARDENER
By John le CarrÃ© and John le Carré

Scribner; 496 pages; $28. Hodder & Stoughton; £16.99

Buy it at
Amazon.com
Amazon.co.uk



JOHN LE CARRÉ'S 18th novel starts with a bang. "The news hit the British High Commission in Nairobi at nine-thirty on a Monday morning. Sandy Woodrow took it like a bullet, jaw rigid, chest out, smack through his divided English heart." Crikey. So that's how you take a bullet. Poor old Sandy. His English heart must be *really* divided now. This deliriously hardboiled opening sets the tone for what's to come. White mischief? Pshaw! White plague, more like it.

Sandy Woodrow is head of chancery at the British High Commission in Nairobi. The news that neatly subdivides his heart as the novel opens is the death of a young, beautiful and idealistic lawyer turned aid worker named Tessa Quayle. Tessa has been murdered for learning too much about the unscrupulous practices of a large pharmaceutical company operating in Africa. Her body is found at Lake Turkana, in northern Kenya near the border with Sudan. Tessa's husband, Justin, is also a British diplomat stationed in Nairobi. Until now Justin has been an obedient civil servant, content to toe the official line—in short, a plodder. But all that changes in the aftermath of his wife's murder. Full of righteous indignation, he resolves to get to the bottom of it, come what may.

"The Constant Gardener" has got plenty of tense moments and sudden twists and comes complete with shadowy figures lurking in the shrubbery. There is a familiar tone of gentlemanly world-weariness to it all, which should keep Mr le Carré's fans happy. But the novel is also an impassioned attack on the corruption which allows Africa to be used as a sort of laboratory for the testing of new medicines. Elsewhere, Mr le Carré has denounced the "corporate cant, hypocrisy, corruption and greed" of the pharmaceutical industry. This position is excitingly dramatised in his book, even if the abuses he rails against are not exactly breaking news.

In other respects "The Constant Gardener" is less satisfactory. Mr le Carré can't seem to make up his mind whether he's writing a thriller or an exposé. In a recent article for the *New Yorker* he described his creative process as "a kind of deliberately warped journalism, where nothing is quite what it is" and where any encounter may be "freely recast for its dramatic possibilities". Such is the method employed in "The Constant Gardener", whose heroine, Mr le Carré says, was inspired by an old friend of his. One or two prominent real-life Kenyan politicians are mentioned often enough to become, in effect, "characters" in the story. And in a note at the end of the book Mr le Carré thanks the various diplomats, doctors, pharmaceutical experts and old Africa hands who gave him advice and assistance, though in the same breath he insists that the staff of the British mission in Nairobi are no doubt all jolly good eggs who bear no resemblance whatsoever to the heartless scoundrels in his story.

There's nothing wrong with a bit of artistic licence, of course. But Mr le Carré's equivocation about the novel's relation to fact undermines its effectiveness as a work of social criticism, which is pretty clearly what it aspires to be. "The Constant Gardener" is a cracking thriller but a flawed exploration of a

complicated set of political issues.

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About sponsorship

Modern African history

God is a Nigerian

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KARL MAIER'S book might have been entitled: "This House Should Have Fallen a Long Time Ago". Just why Nigeria is still a nation state after so many years of chaos is one of the wonders of modern geopolitics. It is like a simmering volcano that occasionally throws up spurts of gory violence. Do these eruptions act as a safety valve or will they lead to a cataclysm? Nigerians account for one-sixth of the population in sub-Saharan Africa, 17 times the number of Rwandans, 12 times as many as the Somalis. If Nigeria blows, it won't be pretty.

THIS HOUSE HAS FALLEN: MIDNIGHT IN NIGERIA
By Karl Maier

PublicAffairs; 366 pages; $26.
Allen Lane, The Penguin Press; £20

Buy it at
Amazon.com
Amazon.co.uk

Mr Maier, a former contributor to *The Economist*, describes Nigeria as "the largest failed state in the Third World." But he also points out that Nigerians, for all their rage and frustration at their dashed expectations and ruined lives, always pull back from the brink. The strikes, riots and pogroms flare up and then subside. "God is a Nigerian", as President Olusegun Obasanjo says, meaning He will never allow Nigeria to go completely to hell.

The end of military rule in 1999 was cause for fresh optimism. But Mr Maier is too experienced to believe that solutions will be easy to find. President Obasanjo's inauguration embodied both the dream and the reality of Nigeria. While the new president, in his first speech, was promising that nobody, however important, would be allowed to break the law, the crowd at the back of the stadium began rioting. Soldiers and policemen joined in, attacking vehicles loaded with ceremonial paraphernalia and grabbing armfuls of T-shirts and umbrellas.

That, in the eyes of many, is Nigeria: a mindless scramble for loot by rich and poor alike. Recent revelations about the scale of theft by Sani Abacha, a previous military dictator, leaves one speechless. No wonder Colin Powell, the new American secretary of state, once called all Nigerians crooks and thieves. Mr Maier's panorama of the country's scammers and rogues is conspicuously broad. But he also presents a different side of Nigeria: the dedicated human-rights lawyer, the gentle priest, the courageous journalist and a cast of ordinary people struggling to lead decent, honest lives in a country governed by insanity.

Mr Maier's observation is meticulous, and his heart sympathetic. By skilfully blending anecdote, travel and history, his book throbs with the Nigerians' huge humanity and their hopes, anger and joy. One delicious moment is an interview with the once-charming Ibrahim Babangida, who ruled from 1985 until 1994. Now probably Nigeria's richest man, Mr Babangida bears more responsibility for the country's collapse than anyone else. Once out of power, his famed political dexterity deserted him. His ramblings about who killed Dele Giwa, a well-known journalist, and other key events, recorded verbatim, expose him as a brutal tyrant of limited brainpower.

There has been no truly readable book on Nigeria for non-Nigerians since John de St Jorre's "The Brothers' War: Biafra and Nigeria" (Houghton Mifflin, 1972). Nigerians will read Mr Maier's book avidly; some may pretend to hate it. But no one could fail to find it engrossing.

RICHARD DOWDEN

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Al Gross

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Al Gross, who made the world more talkative, died on December 21st, aged 82

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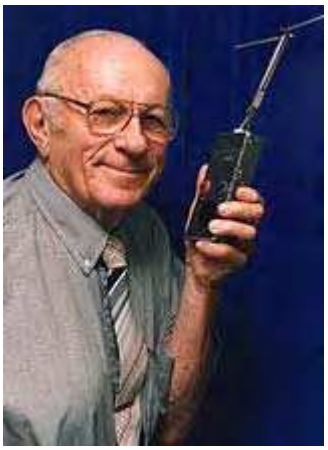

OF THE ingenious people who have had a hand in developing the pager, the cordless phone and other urgent instruments of modern life, Al Gross could take much of the credit, or, if you like, the blame. Mr Gross never objected to a little banter. Making new things was fun, he said. Sharing them was even better.

In the 1920s, when he was growing up, America still enjoyed the innocent optimism of being, in Abraham Lincoln's lush phrasing, "the inventor and owner of the present, and the sole hope of the future." Al (who never called himself Albert) was born in Toronto but his parents moved to Arizona when he was a baby. He always kept a home there and thought it the finest place on earth. As a boy he made a crystal set, and to his astonishment it worked. Distant voices came into his earphones with no connecting wires. "I was hooked," he recalled. For Al Gross and America this was the way into the future. All Mr Gross's discoveries flowed from the need, as he saw it, for easy communication in a vast and diverse land. He aimed for mobility, "the tremendous freedom" of being able to communicate wherever you happen to be.

Marvellous as was the crystal set, it had weak reception and trailed a long aerial. Radios with their valves and batteries were cumbersome. From about the age of 16 and while he was studying for a degree in electrical engineering, Al Gross was working on what came to be called the walkie-talkie, a two-way radio, light and compact and with a reasonable range. By 1941, when the United States entered the second world war, Mr Gross had put together the workable model he holds in our picture.

The story goes that William "Wild Bill" Donovan, an American spy chief, read about the walkie-talkie in a radio magazine, and recruited Mr Gross to design a set for use by agents in enemy territory. The design was adapted for use in aircraft and by troops on the ground. Army historians reckon that it was one of the developments that helped to shorten the war, and thereby saved lives. By the end of the war Mr Gross had been granted patents on a range of developments that were eventually to transform life in the rich world. Did he become rich? "Only in experience," he said.

Myth of the inventor

Al Gross was reluctant to call himself an inventor. He doubted whether there was any such being who could devise something on his own from scratch. But if you had thought up something that looked different from anything else, you might be justified in calling it an innovation. At university he was reminded that Heinrich Hertz, a German physicist, and Reginald Fessenden, an American, were examining the use of radio waves before he was born. No scientist worked in isolation, he said. Who invented television? There were probably many contributors, and it was pointless to squabble. But the Scots, the Italians and the Russians had all made strong claims. The Chinese, who say they thought up everything useful thousands of years ago, might, Mr Gross suggested, produce a Ming-dynasty telly any day.

In Mr Gross's own field, other pioneers, especially in Europe in the 1930s and 1940s, were naturally making radio more efficient. But he did make a justifiable claim to be ahead in personalised communications: not just the walkie-talkie, but the pager and the cordless telephone. And the mobile telephone owed a lot to his experiments. He said in later life, "If it's a wireless mobile device that you're listening to, then yes, I am the precursor, the innovator." He received numerous awards from his peers and a presidential commendation from Ronald Reagan. It is the entrepreneurs, though, who tend to profit from discoveries. The first motor cars were German, or possibly French, not Henry Ford's. The first

electronic computer was made by a Briton, not Bill Gates.

Al Gross did try his hand as a salesman. He was keenly interested in amateur radio, where he was known as Phineas, after Phineas Fogg who in Jules Verne's story went round the world in only 80 days. He sold a lot of walkie-talkies to friendly hams as well as to hunters and walkers in the great outdoors. The United States coastguard bought walkie-talkies to keep in touch with crews who were tending buoys. Mr Gross adapted the technology to construct unattended weather stations that were parachuted into the Atlantic. But his wristwatch-sized walkie-talkie did not take off with the public, although it inspired a similar gadget used by Dick Tracy, a cartoon character.

Mr Gross believed that his pager, a device to alert the wearer with a message, would be seen as a boon by doctors who happened to be away from their surgeries. But the doctors Mr Gross showed it to apparently did not want to be disturbed while off duty. One said the beeping would put him off his golf stroke. Today some 300m are in use, but by the time the pager was in demand as a useful tool Mr Gross's patents had expired. Others were to open up the market for the new toys of civilised living. Like many other pioneers, it was Al Gross's fate to be ahead of his time. But what, he said, was it better to be remembered for, a lot of money, or a rather interesting innovation?

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OUTPUT, DEMAND AND JOBS

Jan 4th 2001
From The Economist print edition

Industrial production in the euro area fell by 0.1% in October, bringing the 12-month growth rate down to 3.8%. In Japan, industrial output declined by 0.8% in November, cutting the annual increase to 3.2%. The unemployment rate edged up, to 4.8%. In France, the unemployment rate dropped to 9.2%, the lowest since March 1991.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2000	2001	3 mths†	1 year	1 year	latest	year ago
Australia	+ 2.6	+ 4.2 Q3	+ 4.5	+ 3.5	+ 1.5	+ 5.7 Q2	– 0.8 Q3	6.6 Nov	6.7
Austria	+ 3.2	+ 3.8 Q2	+ 3.4	+ 2.7	na	+ 5.0 Sep*	– 1.0 Aug	3.2 Nov	3.6
Belgium	+ 1.2	+ 4.4 Q2	+ 3.9	+ 3.0	na	+ 2.0 Oct*	+ 6.9 Aug	10.7 Nov*	11.3
Britain	+ 2.8	+ 3.0 Q3	+ 3.0	+ 2.6	+ 0.5	+ 0.6 Oct	+ 4.7 Nov	5.5 Oct‡	5.9
Canada	+ 4.8	+ 5.0 Q3	+ 4.8	+ 3.2	+ 2.3	+ 5.7 Oct	+ 5.1 Sep	6.9 Nov	6.9
Denmark	+ 2.0	+ 2.7 Q3	+ 2.5	+ 2.3	na	+ 2.6 Oct	+ 0.2 Oct	5.5 Oct	5.4
France	+ 2.7	+ 3.1 Q3	+ 3.3	+ 3.0	+ 4.2	+ 3.3 Oct	– 1.9 Oct	9.2 Nov	10.9
Germany	+ 2.3	+ 2.8 Q3	+ 3.1	+ 2.8	+ 5.2	+ 4.1 Oct	– 1.7 Oct	9.3 Nov	10.4
Italy	+ 2.1	+ 2.4 Q3	+ 2.7	+ 2.4	+ 0.1	+ 4.3 Oct	+ 0.3 Sep	10.5 Jul	11.4
Japan	+ 1.0	+ 1.4 Q3	+ 2.0	+ 1.9	– 3.3	+ 3.2 Nov	– 1.4 Oct	4.8 Nov	4.6
Netherlands	+ 3.2	+ 3.4 Q3	+ 4.1	+ 3.5	– 1.1	– 0.3 Oct	+ 1.0 Sep	2.7 Nov§	2.9
Spain	+ 2.2	+ 3.9 Q3	+ 4.0	+ 3.4	– 0.4	+ 2.6 Oct	na	13.6 Nov	15.1
Sweden	+ 3.9	+ 4.0 Q3	+ 4.1	+ 3.6	na	+ 8.0 Oct	+ 5.2 Oct	3.9 Nov*	5.2
Switzerland	+ 2.0	+ 3.6 Q3	+ 3.4	+ 2.5	na	+ 6.9 Q3*	– 2.4 Oct	1.8 Nov*	2.4
United States	+ 2.2	+ 5.2 Q3	+ 5.2	+ 3.0	+ 2.3	+ 4.7 Nov	+ 6.0 Oct	4.0 Nov	4.1
Euro-11	+ 2.8	+ 3.4 Q3	+ 3.4	+ 2.9	+ 3.8	+ 3.8 Oct	+ 3.3 Sep	8.8 Nov	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 7.0	+ 5.7 Q3	na	na	+16.1	+18.3 Oct	+ 3.7 Aug	8.7 Nov*	9.4
Greece	na	+ 3.7 1999	na	na	na	– 7.2 Aug	+ 9.7 Aug	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.1 Nov	1.5
Ireland	+ 5.3	+11.7 Q1	na	na	+31.0	+ 5.2 Jul	+10.6 Oct	3.7 Nov	4.9
Luxembourg	na	+ 3.5 1999††	na	na	na	+ 1.8 Aug*	– 0.7 Jun	2.5 Oct	2.8
New Zealand	– 2.8	+ 4.5 Q2	na	na	na	+11.8 Q2*	+ 1.7 Q3	5.7 Q3	6.6
Norway	+ 1.3	+ 1.0 Q3	na	na	– 0.7	+ 5.2 Oct	– 1.6 Oct	3.5 Q3	3.3
Portugal	na	+ 3.0 1999‡‡	na	na	na	+ 2.4 Oct*	+ 9.1 Sep	3.4 Q3	4.2

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Aug-Oct; claimant count rate 3.6% in October. §Sep-Nov. ††Government est. ‡‡EIU est.

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COMMODITY PRICE INDEX

Jan 4th 2001
From The Economist print edition

Last year the Organisation of Petroleum Exporting Countries (OPEC) sought to restrain the rise in oil prices by increasing production on four occasions. In all, output rose by 3.7m barrels a day. But since November, oil prices have fallen by a quarter, even though Iraq's exports, usually 2.3m barrels a day, fell sharply in December. When OPEC next meets on January 17th, it is expected to cut output. Saudi Arabia, the world's biggest oil producer, wants a reduction of 1.5m barrels a day, in order to support a price of $25 a barrel, and Kuwait would like a bigger cut still, of up to 2m barrels. OPEC's target price range for the oil produced by cartel members is $22-28 a barrel. The price has now risen above $22, after a week in which it fell below this threshold.

1995=100	Dec 19th	Dec 26th	Jan 2nd*	% change on one month	% change on one year
Dollar index					
All items	72.7	73.1	72.7	+ 0.3	– 1.1
Food	71.5	72.4	72.6	+ 1.9	+ 3.3
Industrials					
All	74.3	74.1	72.9	– 1.7	– 6.4
Nfa†	67.1	67.7	66.5	– 3.3	– 7.2
Metals	80.3	79.5	78.3	– 0.6	– 5.8
Sterling index					
All items	78.3	77.9	76.7	– 3.1	+ 8.2
Food	77.1	77.2	76.6	– 1.6	+ 13.0
Industrials	80.0	79.0	76.9	– 5.1	+ 2.3
Euro index					
All items	107.2	103.5	101.0	– 6.3	+ 7.6
Food	105.5	102.5	100.8	– 4.8	+ 12.3
Industrials	109.6	104.9	101.2	– 8.2	+ 1.7
Yen index					
All items	86.9	88.4	88.6	+ 3.8	+ 10.0
Food	85.5	87.5	88.5	+ 5.4	+ 14.9
Industrials	88.8	89.5	88.8	+ 1.6	+ 4.0
Gold					
$ per oz	269.85	273.50	270.60	– 0.2	– 3.8
Crude oil North Sea Brent					
$ per barrel	26.05	23.85	25.35	– 11.1	+ 4.4
West Texas Intermediate					
$ per barrel	28.71	26.05	27.26	– 7.7	+ 6.8

* Provisional † Non-food agriculturals

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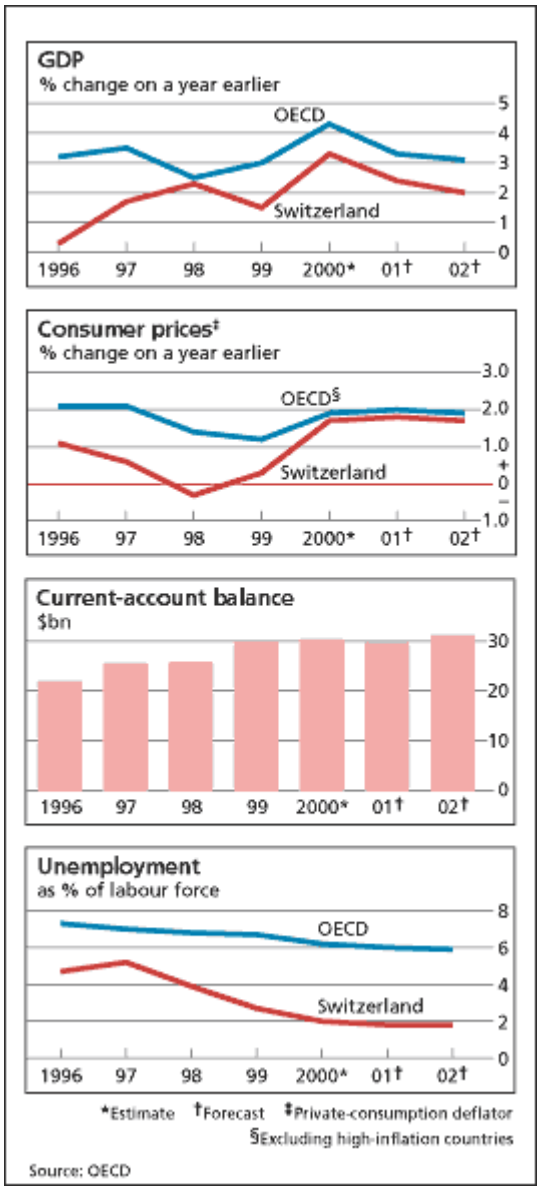
SWITZERLAND

Jan 6th 2001
From The Economist print edition

The Swiss economy is estimated to have grown by more than 3% in 2000, its best performance in ten years. The OECD expects the expansion to continue, with growth of 2.4% in 2001 and 2% in 2002. The upturn has helped to cut unemployment sharply, from over 5% of the labour force in 1997 to 2% in 2000, the second-lowest among OECD countries—and much lower than the 9% average rate in the euro area. But further improvements in Switzerland's labour-market flexibility should prevent this low jobless rate from sparking off higher inflation. Consumer-price inflation is forecast to stay below 2% over the next two years. Switzerland will continue to run a current-account surplus of around $30 billion a year, one of the largest among OECD countries.



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PRICES AND WAGES

Jan 4th 2001
From The Economist print edition

Consumer prices fell in November by 0.2% in Japan, leaving them 0.5% lower than a year earlier. Inflation remained at 2.7% in Italy in the 12 months to December, but it slowed to 2.2% in Germany. Japanese workers suffered a nominal pay cut of 0.5% in the year to November, but in real terms that meant they were no worse off.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2000	2001	3 mths†	1 year	3 mths†	1 year
Australia	+15.8	+ 6.1 Q3	+ 4.7	+ 3.7	+ 8.0	+ 7.2 Q3	+ 6.7	+ 6.5 Q3
Austria	+ 2.3	+ 3.1 Nov	+ 2.1	+ 1.8	+ 7.3	+ 5.7 Nov	+ 0.2	+ 2.0 Oct
Belgium	+ 1.3	+ 2.5 Dec	+ 2.5	+ 2.0	+16.1	+11.8 Oct	nil	+ 1.4 Q3
Britain	+ 2.6	+ 3.2 Nov	+ 2.4	+ 2.5	+ 1.7	+ 2.9 Nov	+ 6.5	+ 4.2 Oct
Canada	+ 3.9	+ 3.2 Nov	+ 2.7	+ 2.4	+ 2.4	+ 4.4 Oct	+ 2.4	+ 5.5 Sep
Denmark	+ 2.9	+ 2.6 Nov	+ 2.8	+ 2.3	+ 6.8	+ 6.7 Nov	+ 7.0	+ 3.8 Q3
France	+ 2.5	+ 2.2 Nov	+ 1.7	+ 1.6	+ 7.2	+ 5.9 Nov	+ 3.4	+ 5.4 Q2
Germany	+ 0.9	+ 2.2 Dec	+ 2.0	+ 1.7	+ 8.9	+ 6.4 Nov	na	+ 2.0 Oct*
Italy	+ 2.9	+ 2.7 Dec	+ 2.6	+ 2.2	+ 7.0	+ 6.7 Nov	+ 2.9	+ 1.8 Oct*
Japan	+ 0.9	− 0.5 Nov	− 0.6	− 0.2	− 0.8	+ 0.3 Nov	na	− 0.5 Nov
Netherlands	+ 5.2	+ 3.0 Nov	+ 2.5	+ 3.2	+ 9.1	+ 9.2 Oct	+ 3.8	+ 2.8 Oct
Spain	+ 4.0	+ 4.1 Nov	+ 3.4	+ 2.7	+ 6.5	+ 5.7 Nov	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.7 Nov	+ 1.3	+ 1.8	+ 6.6	+ 4.8 Nov	− 5.6	+ 3.7 Sep*
Switzerland	+ 1.9	+ 1.9 Nov	+ 1.6	+ 1.5	+ 2.9	+ 3.0 Nov	na	+ 0.2 1999
United States	+ 3.0	+ 3.4 Nov	+ 3.4	+ 2.8	+ 3.9	+ 3.7 Nov	+ 3.9	+ 4.0 Nov
Euro-11	+ 2.5	+ 2.9 Nov	+ 2.3	+ 2.0	+ 6.5	+ 6.4 Oct	+ 2.0	+ 2.4 Q2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 3.7	+ 4.0 Nov	na	na	+11.2	+ 8.2 Nov	+ 1.3	+ 4.4 Q3*
Greece	+10.7	+ 4.2 Nov	na	na	+10.7	+ 9.5 Oct	na	na
Iceland	+ 4.8	+ 4.2 Dec	na	na	+ 0.9	+ 3.9 Nov	+ 6.0	+ 7.8 Sep
Ireland	+ 5.8	+ 7.0 Nov	na	na	+ 5.8	+ 5.9 Nov	− 5.7	+ 6.1 Q1*
Luxembourg	+ 5.2	+ 3.7 Nov	na	na	+ 3.3	+ 5.7 Sep	+31.2	+ 7.1 Aug*
New Zealand	+ 5.6	+ 3.0 Q3	na	na	+16.1	+ 8.0 Q3	+ 1.1	+ 1.5 Q3
Norway	+ 3.7	+ 3.2 Nov	na	na	+ 8.8	+ 6.6 Nov	+ 3.3	+ 3.9 Q2*
Portugal	+ 2.4	+ 3.8 Nov	na	na	+13.3	+16.9 Oct	na	+ 3.7 Sep*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

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MONEY AND INTEREST RATES

Jan 4th 2001
From The Economist print edition

America's Federal Reserve made a surprise half-point cut in its target for the federal-funds rate, reducing it to 6.0%. The decision, made between scheduled meetings, was the first reduction since late 1998 and the first half-point cut since 1992.

	Money supply*		Interest rates % p.a. (Jan 3rd 2001)							
	% rise on year ago		over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad	night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+ 9.9	+ 4.8 Nov	6.25	6.02	5.62	9.00	5.05	5.33	7.00	6.77
Britain	+ 7.2	+ 8.0 Nov	6.38	5.83	6.06	7.00	5.20	4.66	5.75	5.92
Canada	+16.5	+ 7.6 Nov	5.60	5.45	4.88	7.50	5.08	5.40	6.50	7.04
Denmark	na	+ 0.5 Nov	5.90	5.35	3.65	8.00	4.88	5.00	5.69	7.22
Japan	+ 5.1	+ 2.1 Nov	0.25	0.45	0.05	1.50	0.40	1.65	1.70	2.30
Sweden	+ 4.4	+ 3.4 Nov	4.00	4.11	3.55	4.62	4.18	4.68	5.80	4.56
Switzerland	– 2.6	– 1.1 Nov	3.43	3.32	1.73	5.38	3.09	3.38	3.58	4.24
United States	– 1.7	+ 8.8 Nov	6.50	6.32	5.65	9.50	4.87	5.12	6.81	7.12
Euro-11‡	+ 5.0	+ 4.9 Nov	4.65	4.72	3.34	5.10	4.32	4.66	5.42	5.63

†France 4.82, Germany 4.66, Italy 5.13. Benchmarks: Japan No.226 1.63, US 30-year 5.47. ‡Germany for prime and bonds.

*Narrow: M1 except Britain M0, broad: M2 or M3 except Britain M4.Sources: Commerzbank, Den Danske, J.P. Morgan, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Group, Westpac, Thomson Financial Datastream.Rates cannot be construed as banks' offers.

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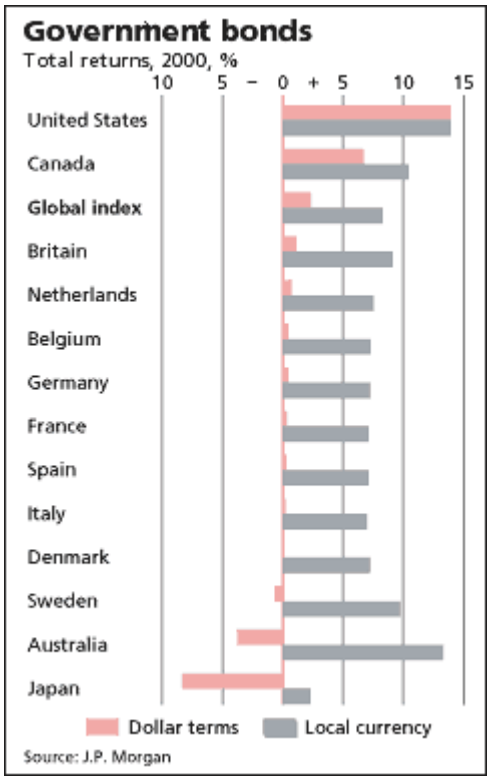
BOND MARKETS

Jan 6th 2001
From The Economist print edition

Last year was a poor one for investors in equities, but those who put their money in government bonds did better. After a rotten 1999, the total return (interest plus capital gains) on bonds was 7% or more in local-currency terms in every country in the chart barring Japan. The effect of the strong dollar for most of the year is clear. The returns for American investors in European bonds were wafer-thin. Dollar-based investors lost in Sweden and still more in Australia and Japan, a striking contrast to 1999, when Japanese bonds returned almost 16% because of yen strength. The real winners in 2000 were Europeans who bought American Treasury bonds, and benefited in euro terms from both high local returns and the strong dollar.



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TRADE, EXCHANGE RATES AND BUDGETS

Jan 4th 2001
From The Economist print edition

The euro reached a five-month high against the dollar and a ten-month peak against the yen. In trade-weighted terms, the dollar fell by 0.8%. The euro area's current-account deficit narrowed to $21.9 billion in the year to October. The Swiss trade deficit widened to $1.1 billion in the 12 months to November; Sweden's trade surplus shrank to $14.6 billion.

	Trade balance*, $bn		Current account			Exchange rate		Currency units					Budget balance % of GDP 2000§
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2000	2001	trade-weighted† Jan 3rd	year ago	per $ Jan 3rd	per $ year ago	per £	per euro	per ¥100	
Australia	+ 0.14 Oct	– 6.4	– 17.8 Q3	-4.5	-3.6	75.1	81.8	1.78	1.52	2.68	1.68	1.55	0.9
Austria	– 0.47 Sep§	– 4.0	– 4.6 Oct	-2.7	-2.3	100.5	101.1	14.6	13.3	21.9	13.8	12.72	-1.6
Belgium	+ 2.04 Sep§	+ 13.7	+ 10.8 Jun	4.2	4.2	99.4	100.2	42.7	39.0	64.2	40.3	37.3	-0.1
Britain	+ 3.63 Oct	– 43.2	– 16.3 Q3	-1.6	-1.8	105.5	106.7	0.66	0.61	–	0.63	0.58	2.7
Canada	+ 3.02 Oct	+ 32.5	+ 7.7 Q3	1.3	1.0	79.4	80.5	1.50	1.45	2.25	1.42	1.31	2.5
Denmark	+ 0.26 Oct	+ 4.4	+ 2.3 Oct	1.2	1.3	102.1	102.6	7.89	7.20	11.9	7.46	6.90	2.7
France	– 0.65 Oct	+ 3.9	+ 30.3 Sep	2.3	2.2	102.2	103.2	6.94	6.35	10.4	6.56	6.06	-1.4
Germany	+ 4.70 Oct	+ 57.1	– 25.1 Oct	-1.1	-0.8	99.1	100.3	2.07	1.89	3.11	1.96	1.81	1.4
Italy	+ 0.35 Oct§	+ 2.9	– 3.9 Sep	-0.2	-0.2	72.9	73.7	2,048	1,874	3,081	1,936	1,790	-0.1
Japan	+ 8.98 Oct	+ 121.0	+ 118.7 Oct	2.5	2.2	143.7	152.0	114	104	172	108	–	-6.0
Netherlands	+ 1.01 Oct§	+ 12.5	+ 13.9 Q3	5.0	4.7	98.4	99.2	2.33	2.13	3.51	2.20	2.04	1.6
Spain	– 2.80 Sep	– 39.4	– 18.8 Sep	-3.1	-3.0	74.5	75.0	176	161	265	166	154	-0.3
Sweden	+ 1.15 Nov	+ 14.6	+ 6.3 Oct	2.4	2.3	78.9	82.6	9.46	8.36	14.2	8.94	8.27	3.4
Switzerland	– 0.07 Nov§	– 1.1	+ 32.5 Q2	11.3	10.6	109.1	104.1	1.61	1.55	2.42	1.52	1.40	na
United States	– 39.49 Oct	– 434.7	– 416.5 Q3	-4.3	-4.2	112.6	104.3	–	–	1.50	0.95	0.87	2.3
Euro-11	+ 2.88 Sep§	+ 24.6	– 21.9 Oct	-0.2	0.1	81.0	83.2	1.06	0.97	1.59	–	0.92	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 1.25 Oct§	+ 13.2	+ 8.7 Oct	na	na	78.3	78.6	6.29	5.75	9.46	5.95	5.50	4.0
Greece	– 1.91 Q2	– 6.8	– 6.9 Jun	na	na	57.6	59.7	360	320	542	340	315	-1.0
Iceland	– 0.03 Nov§	– 0.5	– 0.7 Q2	na	na	na	na	84.2	71.8	127	79.6	73.6	2.8
Ireland	+ 2.85 Oct	+ 26.0	+ 0.9 Q2	na	na	88.2	89.4	0.83	0.76	1.25	0.78	0.73	5.6
Luxembourg	– 0.18 Oct	– 2.6	+ 1.4 Q2	na	na	99.4	100.2	42.7	39.0	64.3	40.4	37.3	na
New Zealand	– 0.19 Nov§	– 1.2	– 3.8 Q2	na	na	80.7	86.4	2.24	1.92	3.37	2.12	1.96	0.5
Norway	+ 2.48 Nov	+ 24.9	+ 19.6 Oct	na	na	92.4	93.7	8.77	7.94	13.2	8.29	7.67	14.0
Portugal	– 0.94 Aug§	– 14.7	– 11.2 Aug	na	na	89.6	90.1	212	194	319	200	185	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. §OECD estimate. §Not seasonally adjusted.

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STOCKMARKETS

Jan 4th 2001
From The Economist print edition

Most stockmarkets started the year fretting over the outlook for the American economy. The tech-heavy Nasdaq Composite slumped by 7.2% to a 22-month low on January 2nd, but it rebounded the next day by a record 14.2% after the cut in American interest rates.

Market indices	Jan 3rd	2000-01 high	2000-01 low	% change on one week	% change on one year	% change on record high	Dec 31st 1999 in local currency	Dec 31st 1999 in $ terms
Australia (All Ordinaries)	3,180.5	3,330.4	2,920.0	+ 0.2	+ 4.2	– 4.5	+ 0.9	– 13.3
Austria (ATX)	1,052.2	1,236.1	1,029.4	– 1.5	– 11.8	– 39.4	– 12.2	– 17.1
Belgium (Bel 20)	3,027.7	3,340.4	2,532.2	+ 0.8	– 1.0	– 17.8	– 9.4	– 14.5
Britain (FTSE 100)	6,039.9	6,930.2	5,994.6	– 2.9	– 7.6	– 12.8	– 12.8	– 18.6
Canada (Toronto Composite)	8,937.8	11,388.8	8,114.2	+ 0.9	+ 10.1	– 21.5	+ 6.2	+ 3.0
Denmark (Copenhagen SE)	911.8	1,039.0	755.1	+ 1.8	+ 20.8	– 12.2	+ 17.7	+ 10.8
France (SBF 250)	3,620.1	4,390.7	3,512.8	– 2.8	+ 2.6	– 17.6	– 5.0	– 10.4
Germany (Xetra DAX)	6,435.0	8,065.0	6,200.7	+ 1.7	– 1.0	– 20.2	– 7.5	– 12.8
Italy (BCI)	1,844.3	2,182.3	1,666.4	– 3.0	+ 9.6	– 15.5	+ 1.5	– 4.2
Japan (Nikkei 225)	13,785.7**	20,833.2	13,423.2	– 1.4	– 25.7	– 64.6	– 27.2	– 34.5
(Topix)	1,283.7**	2,507.6	1,255.2	– 0.8	– 22.3	– 55.5	– 25.5	– 33.0
Netherlands (EOE)	629.9	701.6	612.4	– 0.8	– 0.4	– 10.2	– 6.2	– 11.5
Spain (Madrid SE)	888.8	1,146.2	857.9	+ 1.3	– 6.7	– 22.5	– 11.9	– 16.9
Sweden (Affarsvarlden Gen)	4,558.5	6,960.6	4,558.5	– 5.2	– 11.9	– 34.5	– 17.1	– 25.1
Switzerland (Swiss Market)	8,118.9	8,377.0	6,781.4	+ 0.4	+ 13.1	– 3.5	+ 7.2	+ 6.9
United States (DJIA)	10,945.8	11,723.0	9,796.0	+ 1.3	– 1.6	– 6.6	– 4.8	– 4.8
(S&P 500)	1,347.6	1,527.5	1,264.7	+ 1.4	– 3.9	– 11.8	– 8.3	– 8.3
(Nasdaq Comp)	2,616.6	5,048.6	2,291.9	+ 3.0	– 32.5	– 48.2	– 35.7	– 35.7
Europe (FTSE Eurotop 300) *	1,499.4	1,705.0	1,472.5	– 2.0	+ 1.5	– 12.1	– 5.3	– 10.7
Euro-11 (FTSE Ebloc 100) *	1,357.3	1,550.5	1,277.7	– 1.6	+ 5.8	– 12.5	– 2.0	– 7.5
World (MSCI) †	1,227.5	1,448.8	1,178.2	+ 0.7	– 9.7	– 15.3	na	– 13.6
World bond market (Salomon) ‡	446.9	442.5	414.8	+ 1.0	+ 1.9	– 2.8	na	+ 2.2

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. **Dec 29th.

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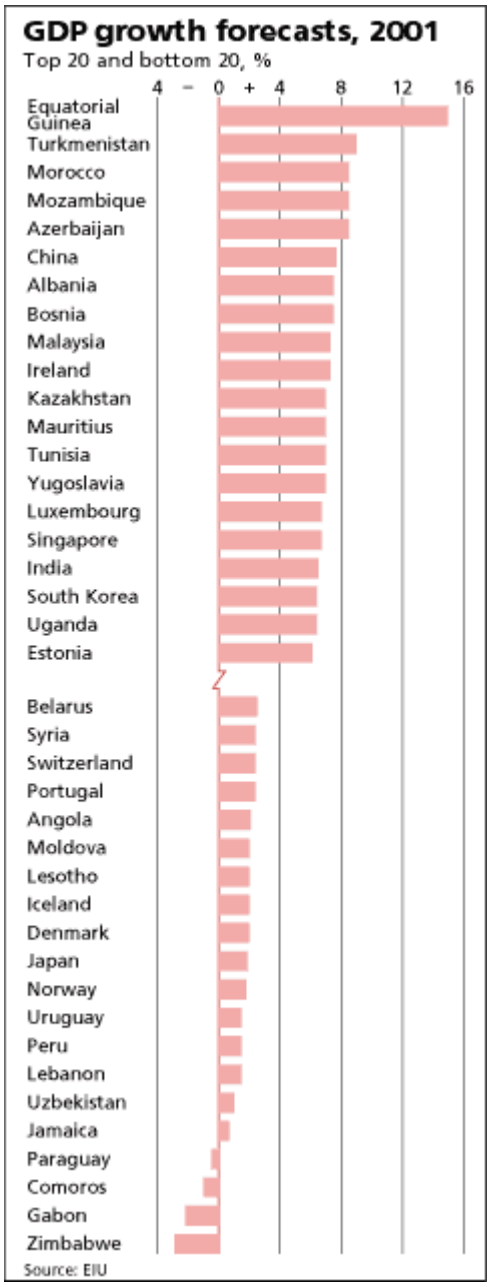
GROWTH PROSPECTS

Jan 6th 2001
From The Economist print edition

The world economy will slow in 2001, according to the latest forecasts by the Economist Intelligence Unit, a sister company of *The Economist*. Global output will rise by 3.4%, down from 4.2% in 2000, which was the fastest increase since 1984. All developing regions will grow faster than Western Europe and North America, where growth will slacken primarily because of a slowdown in the American economy. Growth will be fastest in the Middle East and North Africa, where output will rise by 4.4%, as the higher oil revenues earned over the past year boost public and private spending. In Asia and Australasia, output will rise by 3.9%, with a sluggish Japanese economy offsetting rapid growth in China and India. Growth among developing regions will be lowest in sub-Saharan Africa, but at 3.3% it will still be just higher than in North America and Western Europe. However, GDP in Zimbabwe will fall by almost 3%, the worst performance of any country in the survey.



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FINANCIAL MARKETS

Jan 4th 2001
From The Economist print edition

Moscow fell by 6.3% to a 12-month low, affected by the global slide in technology shares. Tel Aviv fell by 6.2% on worries about the failure of the peace talks. Manila fell by 3.1% on January 2nd after a spate of bombings. But the Fed's cut in interest rates revived most Latin American markets: Sao Paulo soared by 7.6% on January 3rd.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 3rd		Dec 31st 1999	
	Jan 3rd	year ago	Jan 3rd	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.5	5.40	2,246.7	+ 3.2	+ 54.7	+ 54.8
Hong Kong	7.80	7.78	11.7	5.73	14,589.5	– 1.1	– 14.0	– 14.3
India	46.7	43.5	70.3	8.75	4,060.0	+ 4.7	– 18.9	– 24.4
Indonesia	9,550	7,195	14,370	14.76	405.8	– 2.5	– 40.0	– 55.7
Malaysia	3.80	3.80	5.72	3.30	657.5	– 3.3	– 19.1	– 19.1
Philippines	51.0	40.2	76.7	16.00	1,451.0	– 0.9	– 32.3	– 46.5
Singapore	1.73	1.66	2.61	2.81	1,861.5	– 1.6	– 24.9	– 27.8
South Korea	1,271	1,135	1,912	6.87	521.4	+ 3.3	– 49.3	– 54.8
Taiwan	33.1	30.7	49.7	5.75	4,894.8	+ 6.1	– 42.1	– 45.0
Thailand	43.6	37.2	65.6	3.13	272.0	+ 2.1	– 43.6	– 51.4
Argentina	1.00	1.00	1.50	10.66	448.9	+ 6.9	– 18.2	– 18.2
Brazil	1.94	1.86	2.92	15.84	16,599.4	+ 9.3	– 2.9	– 10.3
Chile	574	529	863	4.65*	4,879.2	+ 1.0	– 5.6	– 12.8
Colombia	2,231	1,919	3,356	13.33	706.1	– 1.3	– 29.2	– 40.5
Mexico	9.83	9.57	14.8	17.86	5,857.5	+ 5.2	– 17.8	– 20.8
Peru	3.52	3.52	5.3	10.90	1,200.2	+ 0.5	– 34.6	– 34.8
Venezuela	699	651	1,052	13.58	6,839.6	+ 2.6	+ 26.2	+ 17.2
Egypt	3.88	3.42	5.84	9.09	7,507.1	– 0.4	– 42.4	– 49.2
Israel	4.09	4.17	6.15	6.03	460.8	– 6.2	– 5.4	– 3.7
South Africa	7.50	6.07	11.3	10.45	8,108.5	– 2.8	– 5.1	– 22.0
Turkey	666,120	536,730	1,002,311	46.00	9,137.4	– 3.2	– 39.9	– 51.1
Czech Republic	37.3	35.1	56.1	5.38	462.5	– 2.1	– 5.6	– 9.0
Hungary	280	246	421	11.78	7,507.8	– 3.2	– 14.9	– 22.8
Poland	4.11	4.13	6.19	19.35	17,506.1	– 2.8	– 3.2	– 2.6
Russia	28.6	27.3	43.0	25.00	131.0†	– 6.3	– 23.5	– 26.3

*Inflation-adjusted. †In dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

Jan 4th 2001
From The Economist print edition

Consumer prices in Hong Kong dropped by 2.0% in the year to November—the 25th consecutive monthly decline. In the same period, industrial output rose by 17.1% in Singapore, 6.4% in South Korea and 1.6% in Taiwan. A surge in exports, up by 20% in 2000, contributed to a larger-than-expected trade surplus of $12.1 billion in South Korea.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 8.2 Q3	+10.6 Nov	+ 1.3 Nov	+26.3 Nov	+15.7 1999	160.1 Sep	154.7
Hong Kong	+10.4 Q3	− 0.1 Q3	− 2.0 Nov	−10.6 Nov	+ 9.2 Q3	104.2 Nov	92.1
India	+ 7.2 Q4†	+ 6.6 Oct	+ 2.7 Nov	− 8.3 Oct	− 5.6 Q3	35.5 Nov	32.0
Indonesia	+ 5.1 Q3	+38.4 Q4†	+ 9.4 Dec	+30.5 Oct	+ 6.2 Q1	29.0 Nov	26.3
Malaysia	+ 7.7 Q3	+20.6 Oct	+ 1.9 Nov	+16.8 Nov	+11.3 Q2	30.1 Oct	30.0
Philippines	+ 4.8 Q3	+21.0 Oct	+ 6.0 Nov	+ 5.8 Oct	+ 9.1 Aug	13.0 Sep	12.7
Singapore	+10.4 Q3	+17.1 Nov	+ 1.8 Oct	+ 4.0 Nov	+21.6 Q3	77.8 Sep	75.9
South Korea	+ 9.2 Q3	+ 6.4 Nov	+ 3.2 Dec	+12.1 Dec	+11.7 Nov	92.6 Oct	66.1
Taiwan	+ 6.6 Q3	+ 1.6 Nov	+ 2.3 Nov	+ 7.4 Nov	+ 7.5 Q3	109.1 Oct	102.7
Thailand	+ 2.6 Q3	− 2.0 Nov	+ 1.3 Dec	+ 5.8 Nov	+ 9.5 Nov	31.6 Oct	31.7
Argentina	+ 0.8 Q2	− 5.1 Oct	− 0.7 Nov	+ 0.3 Oct	−11.4 Q2	23.3 Oct	22.4
Brazil	+ 4.5 Q3	+ 7.2 Oct	+ 5.5 Nov	− 0.2 Nov	−24.9 Nov	30.4 Oct	40.1
Chile	+ 5.8 Q3	+ 5.2 Oct	+ 4.7 Nov	+ 1.1 Nov	− 0.7 Q3	14.2 Oct	14.3
Colombia	+ 3.1 Q3	+10.3 Oct	+ 8.8 Nov	+ 2.2 Sep	+ 0.1 Q2	8.4 Nov	8.9
Mexico	+ 7.0 Q3	+ 7.3 Oct	+ 8.9 Nov	− 7.5 Nov	−16.4 Q3	35.3 Oct	32.3
Peru	+ 0.2 Oct	+ 0.8 Oct**	+ 4.0 Nov	+ 0.4 Oct	− 1.6 Q3	8.9 Sep	8.9
Venezuela	+ 3.3 Q3	na	+ 14.2 Nov	+14.4 Jul	+11.8 Q3	14.3 Oct	11.8
Egypt	+ 6.5 2000‡	+ 9.4 2000‡	+ 2.6 Sep	−10.8 Q3	− 0.9 Q3	13.4 Aug	16.1
Israel	+ 7.3 Q3	+ 1.6 Oct	+ 0.1 Nov	− 7.4 Nov	− 0.7 Q3	22.0 Nov	21.4
South Africa	+ 4.5 Q3	+ 3.8 Oct	+ 7.1 Nov	+ 2.6 Nov	− 0.7 Q3	6.1 Oct	5.9
Turkey	+ 7.4 Q3	+13.2 Oct	+ 39.0 Dec	−23.7 Sep	− 8.1 Sep	24.3 Sep	23.7
Czech Republic	+ 2.2 Q3	+ 9.0 Oct	+ 4.3 Nov	− 3.1 Nov	− 1.9 Q3	12.3 Nov	12.7
Hungary	+ 4.6 Q3	+16.3 Oct	+ 10.6 Nov	− 2.2 Nov	− 0.6 Nov	10.1 Oct	10.2
Poland	+ 5.2 Q2	+ 7.2 Oct	+ 9.3 Nov	−14.4 Oct	−11.6 Oct	26.1 Oct	24.8
Russia	+ 7.9 Q3	+ 7.6 Nov	+ 19.8 Nov	+57.3 Oct	+31.4 Q1	22.3 Oct	7.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999‡	− 7.2 Feb	+ 4.9 Nov	− 2.0 Nov	− 2.5 1999	1.1 Sep	1.5
Saudi Arabia	+ 0.4 1999	na	− 0.6 Sep	+24.9 1999	− 1.7 1999	16.4 Sep	14.1

*Excluding gold, except Singapore; IMF definition. †1999. ‡Year ending June. **New series

Text refers only to the first 25 countries listed

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